

AR77

Pembina Pipeline Income Fund

Western Canadian Holdings Limited
Company of Alberta
515 Investment Building
Calgary, Alberta T2G 2R5

expanding our **horizons**

2003

Pembina Pipeline Income Fund

Pembina Pipeline Income Fund is a publicly traded Canadian income fund engaged, through its operating subsidiaries, in the transportation of light conventional and synthetic crude oil, condensate and natural gas liquids in Western Canada.

Pembina Pipeline Income Fund, an unincorporated open-end trust, pays monthly cash distributions to Unitholders. Pembina Pipeline Income Fund Trust Units are listed on the Toronto Stock Exchange under the symbol PIFUN. Pembina's corporate head office is located in Calgary, Alberta.

HIGHLIGHTS

	2003	2002
Operating Revenue (millions)	\$ 243.1	\$ 224.5
Distributed Cash (millions)	\$ 101.0	\$ 96.3
Distributed Cash (per Trust Unit)	\$ 1.05	\$ 1.05
Trust Units Outstanding (weighted average in millions)	96.2	91.7
Total Enterprise Value (at December 31st) (millions)	\$ 2,015.3	\$ 1,429.1
Senior Debt to Total Enterprise Value	20.6%	22.8%
Throughput Volumes (thousands of barrels per day)		
Alberta	433.6	471.8
BC	27.5	17.2
Total Conventional Pipelines	461.1	489.0
AOSPL	217.6	235.0
Total	678.7	724.0

ENTERPRISE VALUE AND TRUST UNITS OUTSTANDING

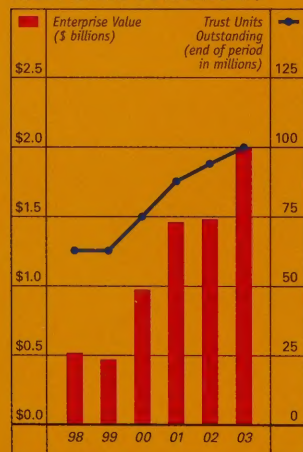


TABLE OF CONTENTS

2	Letter to Fellow Unitholders
6	Pembina's Asset Portfolio
11	Health, Safety and Environment
12	Corporate Governance Practices
14	Management's Discussion and Analysis
33	Manager's Report
34	Auditors' Report to the Unitholders
35	Consolidated Financial Statements
38	Notes to Consolidated Financial Statements
50	Supplementary Information
56	Corporate Information
57	Officers and Directors

PIF.UN

Canada's leading liquids feeder pipeline business



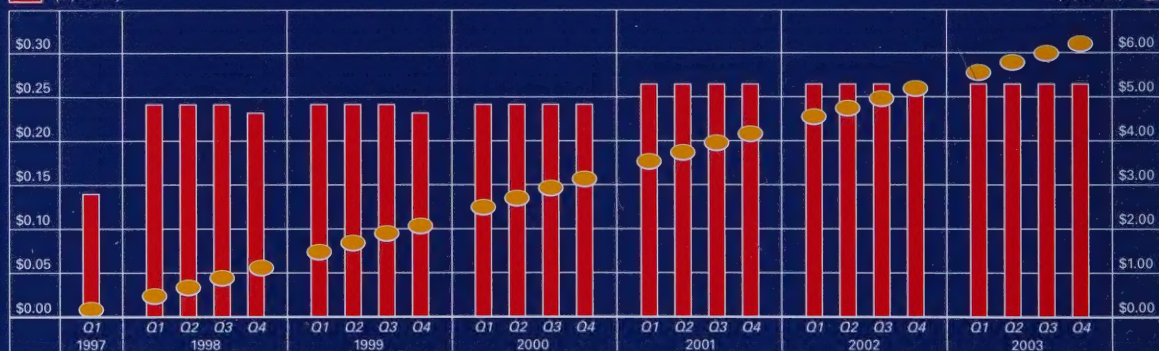
Letter to Fellow Unitholders

Over the past three years we have achieved tremendous growth through the low-risk development of our asset base and by selectively capturing strategic and accretive acquisition opportunities. In 2003 we made further progress in broadening and diversifying our more than \$1.5 billion portfolio of high quality assets, expanding our horizons to secure the future sustainability of our cash distributions.

At Pembina, **expanding our horizons** is more than just a vision;
it is the way we do business every day.

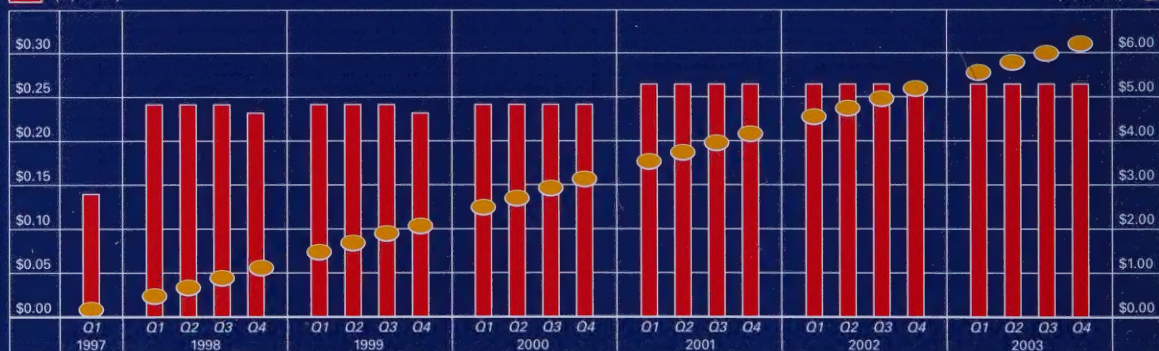
DISTRIBUTED CASH

(\$ per Unit)



CUMULATIVE DISTRIBUTION

(\$ per Unit)



MEETING OUR COMMITMENTS

Providing **stable distributions** to our Unitholders, that are **sustainable over the long term**, has been our guiding principle since inception of the Fund. And, our track record in meeting our targets speaks for itself. Pembina has achieved its annual distribution objective in every year since 1997, and in 2003 paid \$1.05 per Trust Unit or a record \$101 million in cash distributions to Unitholders of the Fund. Over the course of its history as a public entity, Pembina has paid out \$6.15 on an original unit price of \$10.00 and has distributed in excess of \$465 million. The stable, positive trend in Pembina's distributions is ably supported by our well-diversified cash generating asset base.

MANAGING FOR THE LONG TERM

Pembina's ongoing success is driven by results-focused, team oriented and technically accomplished professionals who are committed to the long term. A tightly focused business strategy, that has evolved to meet a changing business and operating climate, has been purposefully planned and executed to extend Pembina's horizon of sustainable cash distributions and to provide tangible opportunities for further growth. In 2003, Pembina successfully executed on the two main elements of this strategy;

- to increase the proportion of its asset portfolio invested in long-lived energy infrastructure; and,
- to maintain the operating performance of the conventional pipeline business.



S. Bruce Harris

*Vice President,
Operations*



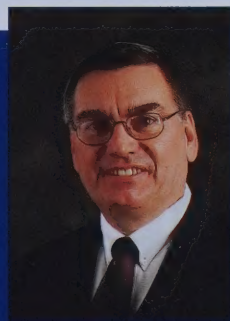
Peter D. Robertson

*Vice President, Finance and
Chief Financial Officer*



D. James Watkinson, O.C.

*Vice President, General
Counsel and Secretary*



Fred E. Webb

*Vice President,
Business Development*

During 2003, Pembina made substantial investment in assets that are characterized by predictable, sustainable and low-risk cash flow. Incremental returns generated by two significant undertakings in 2003, being the capacity expansion of the AOSPL system and acquisition of a 50 percent interest in an ethylene storage facility, will see Pembina's ratio of cash generated by such assets increase to 40 percent of total operating income by the first quarter of 2004.

Several new initiatives were introduced in 2003, designed to maintain the operating performance of the conventional pipeline business and creatively capture development opportunities. Together with existing toll management and rationalization and optimization programs, these initiatives serve to mute the impact on operating margins of natural declines on our mature pipeline systems and of a rising cost structure, while supporting Pembina's high standard of pipeline integrity and record of safe, reliable operations.

BUILDING OUR FUTURE

The expansion of Pembina's Alberta Oil Sands Pipeline (AOSPL) was a priority in 2003.

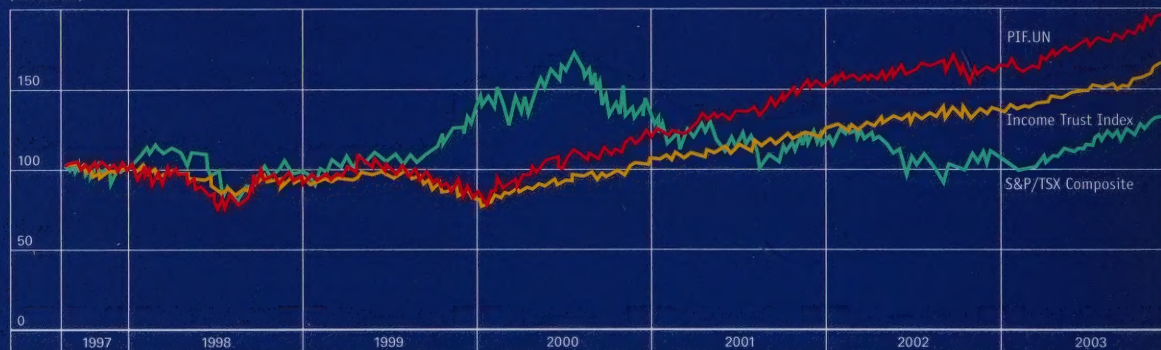
The incremental cash flow generated by the return on \$180 million of expansion capital will enhance the very stable, long-term returns generated by this asset. Pembina will endeavor to capture further opportunities to leverage our investment in this asset by pursuing the potential connection of other planned oil sands developments proximate to our transportation corridor.

The Canadian oil and natural gas sector has enjoyed favorable fundamentals over the past year and 2003 drilling activity progressed at record levels. While throughput volume on Pembina's conventional pipeline systems experienced an aggregate six percent year-over-year decline, 2003 exit volumes rebounded. **Strong producer demand prompted investment in our conventional systems in 2003** and several new projects are being considered for 2004.

COMPARATIVE TOTAL RETURNS

(Index Value)

Chart data provided BMO Nesbitt Burns Income Trust Research.



GENERATING SUPERIOR RETURNS

In a year that was generally favorable for the Canadian trust sector and equities markets in general, **Pembina generated an attractive 30 percent total return in 2003.** We believe that Pembina's strong relative performance within the trust sector reflects our solid record of value creation, which has perpetuated the stable, growing Unitholder distributions of the Fund.

At year-end, Pembina's total enterprise value exceeded \$2 billion and senior debt to enterprise value declined to 21 percent. A favorable STA-2 (low) stability rating obtained from DBRS in May 2003 provides **formal recognition of Pembina's stable cash generating asset profile and sound financial condition.** A solid investment grade rating of "BBB" on Pembina Pipeline Corporation confirmed by Standard & Poor's during the year provides further support for Pembina's ongoing access to capital on attractive terms.

LOOKING AHEAD

By maintaining focus on our core competencies, Pembina intends to build on the momentum established during 2003 and continue to expand our horizons into the future. Strong energy industry activity projected for 2004 bodes well for our conventional pipeline business, and we will continue to respond to requests for new and enhanced service with cost-effective transportation solutions for our customers. The future has rarely looked more positive for oil sands development, with several projects by major industry participants at varying stages of approval and planning. Pembina is uniquely positioned to capture new business on its Alberta Oil Sands Pipeline.

Our financial strength, balanced portfolio of high quality assets and results-oriented management team support Pembina's prospects for future growth.

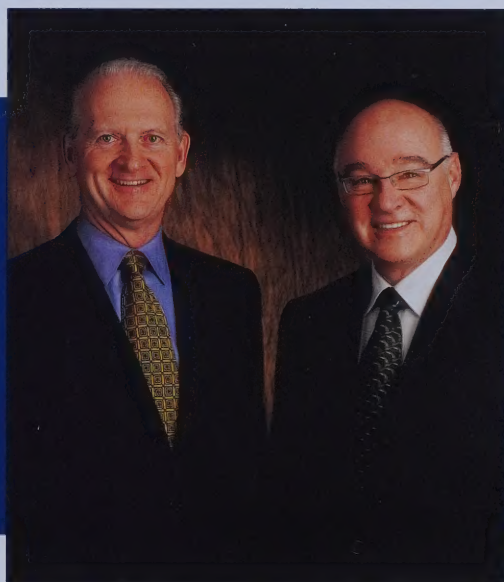
Firm commitment to best practices in corporate governance and high standards of corporate conduct.

LEFT

Lorne B. Gordon
Chairman

RIGHT

Robert B. Michaleski
President and
Chief Executive Officer



Our firm commitment to best practices in corporate governance and high standards of corporate conduct ensure the interests of Pembina's Unitholders are well served.

At Pembina, expanding our horizons is more than a vision, it is what we deliver. We are managing the business for the long term, and are committed to expanding our horizon of sustainable distributions and creating value for our Unitholders.

On behalf of the Board of Directors:

A handwritten signature in blue ink, appearing to be 'L. Gordon'.

Lorne B. Gordon
Chairman
Pembina Pipeline Corporation

March 4, 2004

A handwritten signature in blue ink, appearing to be 'R. Michaleski'.

Robert B. Michaleski
President and Chief Executive Officer
Pembina Pipeline Corporation & Pembina Management Inc.

A balanced portfolio of high quality assets, expertly managed, advances our prospects for future growth and prosperity.

Our extensive network of nearly 8,000 kilometers of pipelines transport light conventional crude oil, synthetic oil and condensate and natural gas liquids (NGLs). Pembina's pipeline systems span the oil and natural gas producing regions of Alberta and northeastern British Columbia and serve the vast and rapidly expanding oil sands resource in Alberta's north. Our fourteen pipeline systems provide cost-effective and technically sophisticated transportation service to a broad range of customers. Our unwavering focus on safe, reliable operations and quality service promotes and protects the interests of Pembina's varied stakeholder groups.

During 2003, Pembina made significant progress on the multi-year initiative to upgrade and standardize the Supervisory Control and Data Acquisition (SCADA) and the Leak Detection systems utilized to remotely monitor and control our pipeline operations. Once complete, these functions will be fully integrated into a single state-of-the-art system, which will greatly enhance the safe, efficient operation of the pipeline network. Pembina continues to direct substantial resources toward its programs of regularly scheduled preventative maintenance and pipeline integrity. By establishing standards that meet, and in many cases exceed, requirements, Pembina demonstrates its long-term commitment to upholding its responsibilities as a senior pipeline operator.

2003 HIGHLIGHTS

	Revenue (\$ millions)		Average Throughput (mbbls/day)		Average Tariff ² (\$/bbl)	
	2003	2002	2003	2002	2003	2002
Alberta	\$ 163.5	\$ 169.9	433.6	471.8	\$ 1.03	\$ 0.99
BC ¹	23.9	17.7	27.5	17.2	1.03	0.87
AOSPL ³	44.5	36.9	217.6	235.0	0.56	0.43
Storage	11.2	—	—	—	—	—
Total	\$ 243.1	\$ 224.5	678.7	724.0	\$ 0.89	\$ 0.81

¹ Volume includes BC production transported on Western system only. Revenue includes Western system and BC gathering results.

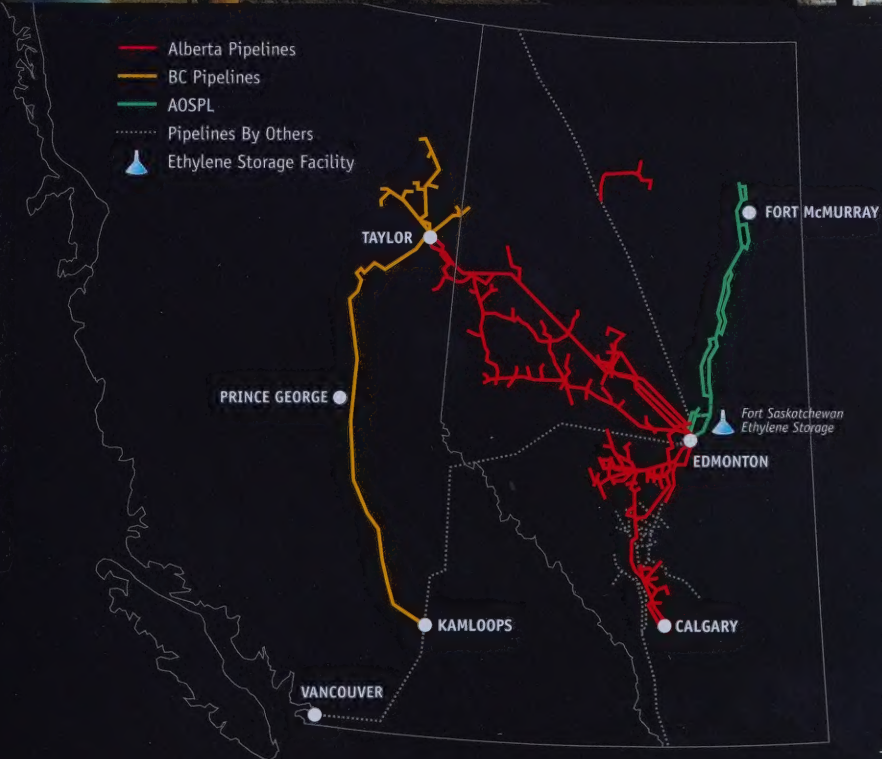
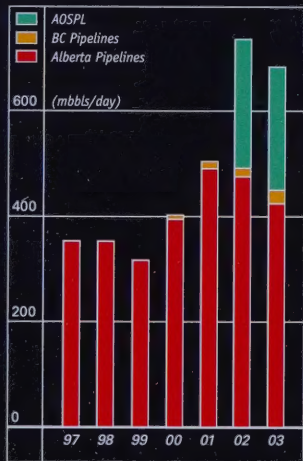
² Storage revenue excluded in average toll calculation.

³ AOSPL revenue is contract based and independent of throughput volume.

An unwavering focus on safe, reliable operations and quality service.



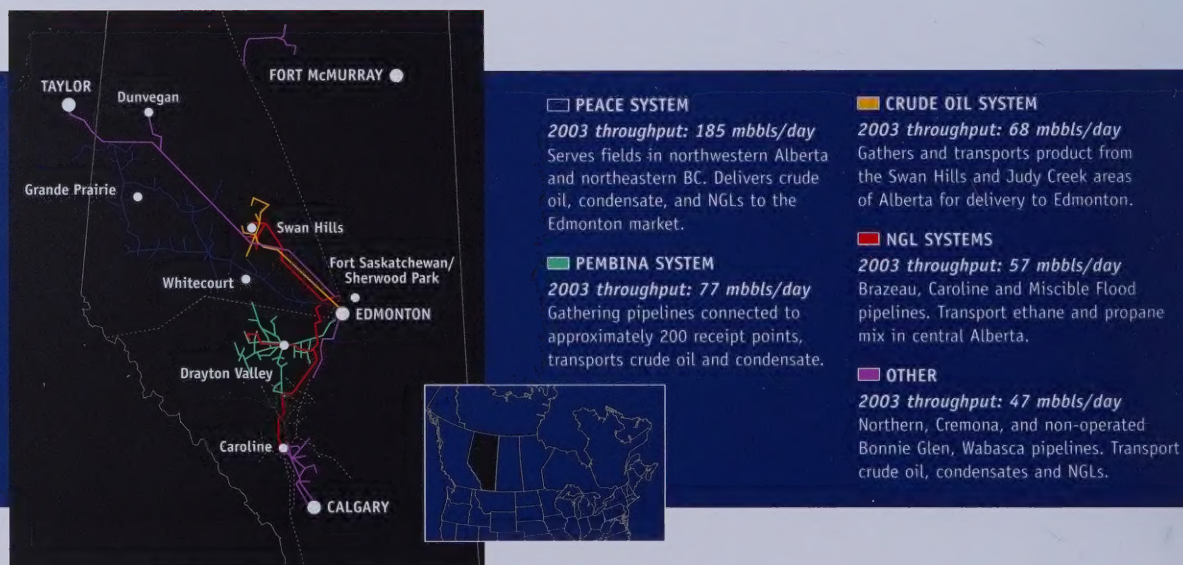
DAILY AVERAGE THROUGHPUT



ALBERTA PIPELINES

Pembina's Alberta pipelines, a network of crude oil, condensate and natural gas liquids (NGLs) pipelines, including two non-operated systems in which Pembina owns an interest, collectively transported an average of 433,600 barrels per day in 2003. Record oil and natural gas drilling activity in western Canada during the year produced strong year-end volumes on the Peace and Pembina systems, as production from new developments came onstream in the latter part of the year. This activity is important to Pembina, as incremental receipts arising from ongoing development in our service region help to offset the impact of natural production declines.

Focused investment and efficient asset management promote consistent operating performance on our conventional pipeline systems.



Pembina invested \$6 million in the Alberta based pipelines and related facilities during 2003. A new crude oil battery, producing 2,000 barrels per day, was connected to the Peace system late in 2003. Strong ongoing producer/shipper demand on the Peace and Pembina systems has prompted a further five new connections scheduled for 2004. Several additional requests for service on these pipelines are currently under consideration. During 2003, strong receipts of NGLs on the Peace system resulted in capacity constraints on the 12-inch NGLs pipeline. Alternative solutions are being considered and we expect to resolve this issue during 2004. Pembina continues to pursue attractive incremental investment in its conventional pipeline systems and, based on the current industry environment, expects an abundance of opportunities in the coming year.

ALBERTA OIL SANDS PIPELINE (AOSPL)

The AOSPL system provides pipeline transportation service to the Syncrude Project, the world's largest producer of synthetic crude oil from oil sands and the largest single source of oil in Canada. Throughput on this system averaged 217,600 barrels per day in 2003 and by December 2003, volume increased to record levels of 270,000 barrels per day.

Staged growth in production from the Syncrude facility has necessitated the phased capacity expansion of the AOSPL system. To meet the requirements of Syncrude's current expansion phase, AOSPL design capacity will be increased by just over forty percent, from 275,000 barrels per day to 389,000 barrels per day by mid-2004.

This \$180 million investment in the AOSPL capital base enhances the very long-term, contract-based returns generated by this pipeline. Further investment opportunities in AOSPL may develop, as Syncrude pursues future expansion of the productive capacity of its oil sands facility.



Pembina's AOSPL system is competitively positioned to capture other business along its service corridor. Several producer groups are contemplating new oil sands projects. The AOSPL system was designed with future expansion in mind, and additional capacity can be constructed at a considerably lower cost than other transportation alternatives. In 2003, Pembina began discussions with the Syncrude participants and potential third-party shippers concerning possible transportation arrangements. In 2004 we will vigorously pursue this unique opportunity to leverage our investment in AOSPL and, if successful, expect further development of this system to greatly enhance the long-term sustainable cash flow of the Fund.

By leveraging the investment in our premier long-life asset, Pembina hopes to realize the full development potential of the AOSPL system in coming years.

BRITISH COLUMBIA (BC) PIPELINES

Pembina's BC gathering pipelines, located upstream of Taylor, BC, and the Western system, are collectively referred to as the BC Pipelines. The BC gathering pipelines transported an average 36,100 barrels per day in 2003 and serve the dynamic oil and gas producing region of northeastern BC. Significant oil and gas industry activity occurred in this area in 2003, and current conditions indicate a continuation of this trend in 2004. Pembina invested \$6 million in upgrades and a new connection on the BC gathering pipelines during 2003 and two further connections are scheduled for 2004. The BC gathering pipelines are provincially regulated and therefore returns are not volume sensitive and incremental investment enhances future returns.

Pembina's pipelines form the key liquids pipeline transportation link in northeastern BC, moving 95 percent of the crude oil, condensate and NGLs produced in the province.

Of the total 36,100 barrels of BC production transported on Pembina's pipelines, 27,500 was shipped on the Western system. The balance was shipped east on Pembina's Peace system. Capital expenditures of \$3 million were made on the Western system during 2003 for required repairs and upgrades to this system. Western system tolls are fixed under a five-year agreement with shippers which expires in 2007.



ETHYLENE STORAGE

Pembina acquired a fifty percent non-operated interest in the Fort Saskatchewan Ethylene Storage Limited Partnership in June 2003. This \$188 million purchase represents a natural extension of Pembina's existing NGLs transportation business and reflects the successful execution of our ongoing strategy of diversification of the conventional pipeline business into stable, fully-contracted and long-life energy infrastructure assets.

The storage facility, the only large-scale underground ethylene storage facility in Alberta, is comprised of five underground salt caverns that store ethylene for future delivery to regional purchasers and for export, and is a key component of the petrochemical infrastructure industry. Returns on this asset are generated on a contracted cost of service basis, with provision for full operating cost recovery plus a return on invested capital. Our forecasts indicate an annual \$17.5 million cash contribution to Pembina, with extremely low variability, over the twenty-year term of the storage agreement, providing ideal long-term support for Unitholder distributions.

The stable, long-term return generated by Pembina's fifty percent interest in the ethylene storage facility is ideally suited to an income fund.

Pembina sets a high standard for health, safety and environmental (HSE) practices and is committed to continuous improvement in this area. Four established programs form the pillars upon which Pembina's HSE activities are based.

- **The Work Site Health and Employee Awareness and Training Program** promotes and enhances workplace safety.
- **Our Environmental Programs** promote the environmental four "R's"; Reduce, Reuse, Recover and Recycle.
- **Risk Management and Emergency Response** preparedness is essential to ensuring safe, responsible and continuous operations.
- Pembina routinely meets with community members and local officials to ensure awareness, input and understanding as a part of the **Stakeholder Involvement and Community Relations Program**.

To monitor the efficacy of these programs, Pembina undergoes internal and independent external audits of its HSE activities on a regular and ongoing basis. These audits promote compliance and provide valuable feedback to ensure program goals and objectives are met.

We believe in protecting and safeguarding the health and safety of the environment, our employees and the communities in which we carry out our business. Pembina has become a leader in the pipeline industry through significant growth in our operations. As a result of our diligent pursuit of continuous improvement in HSE practices, Pembina is externally recognized for its high standard of performance in these areas.

Diligent pursuit of continuous
improvement in HSE practices.



The Board of Directors of Pembina Pipeline Corporation, a wholly owned subsidiary of the Fund, is responsible for overseeing the governance of the Fund.

The Board is currently comprised of seven directors, six of whom are independent of management of the Fund. The Management director is the President and Chief Executive Officer of Pembina Pipeline Corporation. At the annual meeting of the Fund, all directors are elected by the Unitholders of the Fund. The Chairman of the Board is an unrelated director (as that term is defined by the Toronto Stock Exchange guidelines). The Board supervises the activities and operations of the Fund through special and regularly scheduled meetings. At the conclusion of each Board meeting, the unrelated directors have developed a practice of meeting separately from management.

The Board of Directors has the responsibility to oversee the conduct of the business of the Fund and to supervise the activities and operations of management, which is responsible for the day-to-day conduct of the Fund's business. The Board's fundamental objectives are to enhance and preserve the cash to be distributed by the Fund's operating subsidiaries to the Fund, to enhance and preserve long-term value to the Fund, to ensure that the Fund and Pembina meet their obligations on an ongoing basis and to ensure that Pembina operates in a reliable and safe manner.

In exercising their powers and discharging their duties, the directors must act honestly and in good faith with a view to the best interest of the Fund and exercise the care, diligence and skill that reasonably prudent people would exercise in comparable circumstances.

There are three Board committees, each of which are made up of three unrelated Board members. These committees are the Audit Committee, the Compensation Committee and the Health, Safety, and Environment Committee. Each committee has its own defined mandate and meet periodically during the year to fulfill their duties and responsibilities. At a minimum, the Audit Committee meets at quarterly intervals, both with management and the auditors of the Fund, as well as separately with the auditors.

AUDIT COMMITTEE

The Audit Committee has the authority to investigate any activity of the Fund, Pembina or its subsidiaries. The Audit Committee may retain persons having special expertise to assist it in fulfilling its responsibilities and set and pay the compensation for any advisors employed.

Certain of the major responsibilities of the Audit Committee include:

- i) *to review any financial forecasts or budgets of Pembina or the Fund as they relate to their operations, which are disclosed in any public document;*
- ii) *to recommend the firm to be appointed as the Fund's external auditors and to meet separately with the external auditors and management to discuss the Fund's financial statements and any issues arising there from;*
- iii) *to review the Fund's interim and annual consolidated financial statements and earnings press releases before they are publicly disclosed and ensure they are fairly presented in all material respects in accordance with generally accepted accounting principles and ensure the selection of accounting policies is appropriate.*

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

The Health, Safety and Environment Committee has the following advisory functions, duties and responsibilities:

- i) *to ensure Pembina maintains written policies, approved by the Committee, which meet or exceed industry standards, and address risk management, accident reporting, and contingency planning in order to protect the health and safety of both employees and the public, and safeguard the environment;*
- ii) *to ensure Pembina establishes and maintains a health, safety and environment management program in compliance with its health, safety and environment policies, and does so in a manner which meets or exceeds industry standards and applicable health, safety and environmental laws; and*
- iii) *to ensure that Pembina regularly undertakes compliance reviews to monitor its performance and to receive and review such compliance reviews and other reports of the Safety and Environment Committee in order to report to the Board with respect to Pembina's health, safety and environment record.*

COMPENSATION AND HUMAN RESOURCES COMMITTEE

The Compensation and Human Resources Committee has the following advisory functions, duties and responsibilities:

- i) *through discussions with the Chief Executive Officer, to establish a performance management program for the Chief Executive Officer, set specific performance goals and measures each year for the Chief Executive Officer and assess the performance relative to the goals, and assure alignment of these goals with Pembina's business plan and provide compensation criteria for senior management.*
- ii) *to review with the Chief Executive Officer the officer and management structure and principal programs for leadership development and succession planning of officers other than the Chief Executive Officer, and monitor progress and development of officers and key management in accordance with succession plans.*
- iii) *to receive and review reports from the Pension Committee of Pembina and approve changes to Pembina's pension plans (subject to Unitholder or Board of Director approval, where appropriate) and ensure that the pension plan investment objectives and policies are met and complied with. This committee must also, at least annually, report on the status of Pembina's pension plans to the Board.*

The Board has approved a Corporate Governance Manual of the Fund that sets out the duties and expectations of the Board, its committees and the management of the Fund. This manual is reviewed and updated periodically to ensure ongoing compliance with evolving corporate governance best practices.

Readers are referred to the Fund's Information Circular relating to the Fund's 2004 annual general meeting where a more detailed overview of the Fund's corporate governance practices (including its compliance with the Toronto Stock Exchange's corporate governance guidelines) is contained under the heading 'Statement of Corporate Governance Practices.'

Management's Discussion and Analysis ("MD&A")

The following discussion and analysis of the financial results of Pembina Pipeline Income Fund ("Pembina" or the "Fund") dated March 4, 2004 is supplementary to and should be read in conjunction with the Audited Consolidated Financial Statements for the years ended December 31, 2003 and 2002.

This MD&A has been reviewed by both the Audit Committee of the Board of Directors and by the Board of Directors.

All amounts are stated in Canadian dollars unless otherwise specified.

2003 HIGHLIGHTS¹

Year ended December 31

(in millions of dollars, except Trust Unit amounts)

	2003	2002
Revenue	\$ 243.1	\$ 224.5
Operating Expenses	96.2	89.0
Net Operating Income	146.9	135.5
EBITDA	133.7	122.8
Interest Expense	20.3	15.8
Net Earnings before Taxes	37.0	39.0
Net Earnings	63.4	59.5
Distributable Cash	101.0	96.3
Distributable Cash per Trust Unit	\$ 1.05	\$ 1.05
Trust Units Outstanding <i>(thousands of units, end of year)</i>	98,766	93,583
Total Enterprise Value	\$ 2,015.3	\$ 1,429.1
Capital Expenditures	\$ 139.8	\$ 28.5

¹ Pembina Pipeline Income Fund distributes cash generated by the pipeline operations of Pembina Pipeline Corporation, and other operating subsidiaries

OVERVIEW

Management has focused on maintaining the operating performance on the conventional pipelines and offsetting the impact of natural declines in the fields that these pipelines serve and of rising operating expense by managing tolls and capturing new development opportunities. The additional investment in the AOSPL system and acquisition of the storage facility interest have made a positive contribution to operating results. Our systems operate in a competitive environment, however we have been successful in attracting new development by offering reliable, cost-effective service to customers. Pembina will continue to manage the operating margins on the conventional systems and pursue new business on all of its pipelines.



FORWARD-LOOKING INFORMATION

The information contained in this Management's Discussion and Analysis contains certain forward-looking statements that are based on the Fund's current expectations, estimates, projections and assumptions in light of its experience and its perception of historical trends. In some cases, forward-looking statements can be identified by terminology such as "may", "will", "should", "expects", "projects", "plans", "anticipates", "targets" and similar expressions. These statements are not guarantees of future performance and are subject to a number of risks and uncertainties, including but not limited to, the impact of competitive entities and pricing, reliance on key alliances and agreements, the strength and operations of the oil and natural gas production industry and related commodity prices, regulatory environment. Fluctuations in operating results and certain other risks detailed from time to time in the Fund's public disclosure documents. Undue reliance should not be placed on these forward-looking statements as both known and unknown risks and uncertainties, including those business risks stated above, may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Accordingly, readers are cautioned that events or circumstances could cause results to differ materially from those predicted. The Fund undertakes no obligation to update publicly or revise any forward-looking statements contained herein and such statements are expressly qualified by the above statements.

NON-FINANCIAL TERMS

Throughout this MD&A the Fund and Pembina use the term "distributable cash" to refer to the amount of cash that has been or is to be available for distribution to the Fund's unitholders. "Distributable cash" is not a measure recognized by Canadian generally accepted accounting principles ("GAAP") and is calculated pursuant to the terms of the Fund's Declaration of Trust. Therefore, distributable cash of the Fund may not be comparable to similar measures presented by other issuers, and investors are cautioned that distributable cash should not be construed as an alternative to net earnings, cash from operating activities or other measures of financial performance calculated in accordance with GAAP as an indicator of the Fund's performance.

Further, the use of the terms EBITDA (earnings before interest, taxes, depreciation and amortization) and operating income are not recognized under Canadian GAAP. Management believes that in addition to net earnings, operating income and EBITDA are useful measures. They provide an indication of the results generated by the Fund's business activities prior to consideration of how the activities were financed or how the results are taxed. Investors should be cautioned, however, that operating income and EBITDA should not be construed as an alternative to net earnings, cash flow from operating activities or other measures of financial performance determined in accordance with GAAP as an indicator of the Fund's performance.

RESULTS FROM OPERATIONS

<i>(in millions of dollars except where noted)</i>	Alberta Pipelines	BC Pipelines ¹	AOSPL	Ethylene Storage	Total
2003					
Throughput (mbbls/day)	433.6	27.5	217.6	—	678.7
Revenue	\$ 163.5	\$ 23.9	\$ 44.5	\$ 11.2	\$ 243.1
Operating Costs	63.0	13.8	17.1	2.3	96.2
Operating Income	100.5	10.1	27.4	8.9	146.9
Operating Expense per barrel	0.40	0.59	0.22	—	0.39
Capital Expenditures	\$ 6.2	\$ 9.3	\$ 124.3	\$ —	\$ 139.8
2002					
Throughput (mbbls/day)	471.8	17.2	235.0	—	724.0
Revenue	\$ 169.9	\$ 17.7	\$ 36.9	\$ —	\$ 224.5
Operating Costs	63.2	10.7	15.1	—	89.0
Operating Income	106.7	6.7	21.8	—	135.5
Operating Expense per barrel	0.37	0.53	0.18	—	0.35
Capital Expenditures ²	\$ 8.5	\$ 10.7	\$ 9.4	\$ —	\$ 28.5

¹ Throughput is volume transported on the Western System only. Other BC volume transported east is included in Alberta total. Revenue, operating costs and income include both Western and BC gathering system results.

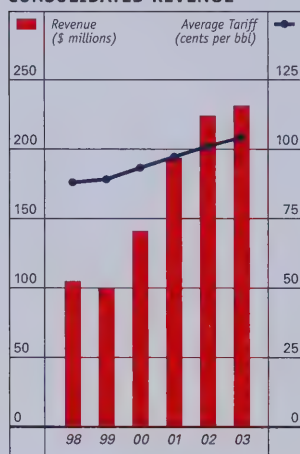
² AOSPL capital expenditures of \$9.4 million are net of a \$5.7 million contribution advance refund.

Consolidated revenue totaled \$243.1 million in 2003, 8.3 percent higher than the prior year total of \$224.5 million. The ethylene storage facility, acquired in mid-2003, contributed \$11.2 million to 2003 revenue. The capacity expansion of the AOSPL system, which added \$123.2 million to the capital base during 2003, generated an incremental \$7.8 million during the year. Excluding the storage facility and AOSPL, revenue was \$187.4 million, similar to the prior year.

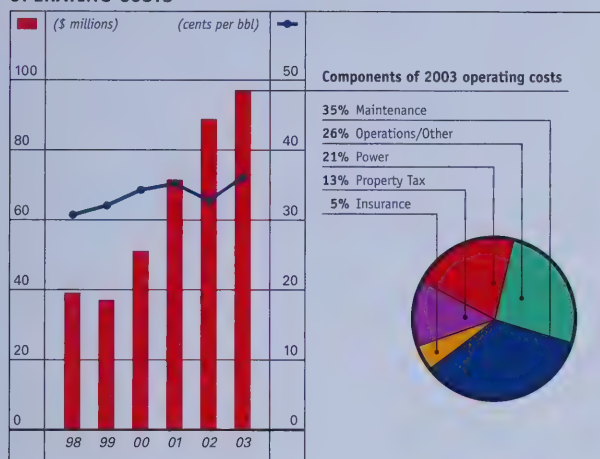
Throughput on Pembina's pipeline systems averaged 679,000 barrels per day in 2003. This compares with an average of 724,000 barrels per day in 2002. Volume on the AOSPL system was 7.4 percent lower than the prior year, the result of lower production from the Syncrude facility due to extensive scheduled and unplanned maintenance in 2003. Excluding the impact of AOSPL, average throughput on Pembina's conventional pipeline systems decreased 5.7 percent to 461,000 barrels per day. Natural field declines in 2003 more than offset the impact of new oil and gas development in Pembina's service regions.

Pipeline tolls on many of Pembina's pipeline systems were adjusted at mid-year and again at the end of the year. Tariff increases were implemented to finance environmental projects and to offset the revenue impact of declining throughput. The calculated average tariff on Pembina's conventional pipeline systems, excluding AOSPL and storage results, was \$1.03 per barrel in 2003. The increase from \$0.97 per barrel in 2002 reflects, in part, the impact of toll adjustments made at the end of 2002 and during 2003.

CONSOLIDATED REVENUE



OPERATING COSTS



Operating expenses totaled \$96.2 million in 2003, an increase of \$7.2 million over the prior year. Operating expenses, excluding storage, on a unit of throughput basis averaged 36.0 cents per barrel in 2003 compared to 32.1 cents in 2002 on a system-wide basis. Excluding the AOSPL system, the conventional pipelines recorded average per unit operating expense of 42.3 cents per barrel in 2003 compared to 38.6 cents per barrel for the prior year. Inclusion of costs associated with the ethylene storage facility in mid-2003 added an incremental \$2.3 million in 2003. Higher maintenance costs on the AOSPL system and restoration of full service on the Western system during the year added another \$1.9 million and \$2.4 million, respectively. The cost of electrical power, one of the largest elements of

Pembina's total pipeline operating expense, was relatively consistent year-over-year. However, the cost of ongoing, regularly scheduled pipeline maintenance has increased. This reflects our continuing focus on pipeline integrity and preventative maintenance programs.

Alberta Pipelines

Daily average throughput on Pembina's Alberta systems was 433,600 barrels per day, compared with 471,800 barrels per day in 2002. The 8 percent year-over-year reduction is partly due to the rerouting of an average 12,600 barrels per day of BC crude to the Western system after full service to Kamloops was restored. Natural field declines contributed 5.4 percent of the 2003 reduction in average volume. Average receipts on the Pembina system have declined 7.6 percent from last year, which is in line with our projections. Recent oil and gas industry development activity in the Pembina field saw 2003 exit volumes at their highest levels of the year, and requests for new service on this system indicate this trend may continue into 2004. A new crude oil production battery was tied-in on the Peace system late in the year which contributed over 2,000 incremental barrels per day, or 600 barrels to 2003 annual results. New crude oil and natural gas developments in the Peace service region have partially offset the impact of production declines on connected reserves.



The Alberta pipelines generated a total \$163.5 million in revenue during 2003, compared with \$169.9 million in 2002. The 3.8 percent reduction in revenue is largely the result of the redirection of crude oil volume back onto the Western system as indicated above. Tariffs were increased on most systems in June and December to offset the impact of throughput declines and rising costs on the mature pipeline systems. An agreement struck with shippers on the Miscible Flood system in 2003 will ensure that the minimum revenue requirement for this system is recovered by Pembina over a twelve month period commencing in October 2003. Extension of this agreement will be negotiated with shippers during 2004.

The cost of electric power comprised 15 percent of total operating expense on the Alberta pipelines in 2003. As part of Pembina's risk management program, the unit cost on 100 percent of the estimated Alberta power requirement has been fixed in two hedge transactions. The first hedge was placed for three years and expires at the end of 2005. The second hedge transaction expires after four years at the end of 2006. These transactions were undertaken to minimize Pembina's exposure to fluctuations in the cost of electric power and reduce variability in operating results. The fixed unit cost under the two hedge instruments was below the market cost of electric power in 2003 and the mark-to-market value of the power rate swaps at December 31, 2003 was an unrealized gain of \$1.2 million.



Pembina has a stable outlook for operating results on the Alberta pipelines for 2004. Average volume is expected to be relatively consistent with 2003. Pembina anticipates that the aggregate volume reduction related to natural field declines will be offset by incremental receipts arising from oil and gas development in the Alberta pipelines service region, most particularly the Pembina and Peace systems. Toll adjustments made in 2003 will, all other things being equal, support higher revenue in 2004. Pembina anticipates that the aggregate calculated tariff for the Alberta pipelines will rise by 6.7 percent, from an average \$1.03 per barrel in 2003 to \$1.10 per barrel in 2004. Operating costs will continue to rise as maintenance, integrity and environmental programs continue to be expanded in scope. Pembina expects operating income contributed by the Alberta pipelines to increase in 2004, as revenue increases more than offset the impact of a higher cost structure in the coming year.

BC Pipelines

Revenue generated by the BC gathering pipelines and the Western system, collectively referred to as the BC Pipelines, was \$23.9 million in 2003. This represents a 35 percent increase over the prior year total of \$17.7 million, and is mainly the result of the resumption of full service on the Western system late in the third quarter of 2002. Deliveries on Western to Kamloops, BC were restricted in the latter part of 2003 due to ongoing tank upgrades and restrictions imposed by connecting pipelines.

BC Pipelines volume, transported on the Western system, averaged 27,500 barrels per day in 2003 compared with 17,200 barrels per day in 2002. Volume transported on the BC gathering pipelines averaged 36,100 barrels per day in 2003. This is 7.9 percent lower than the prior year average of 39,200 barrels per day and is due to a high decline rate on connected reserves, which was only partially offset by new development activity in the region. A new crude oil battery connection completed late in the year is expected to contribute 1,250 barrels per day on an annualized basis.

Operating expense totalled \$13.8 million in 2003, and was 29 percent higher than the \$10.7 million recorded in 2002. Increased costs arose from incremental expenses associated with full service on the Western system and \$0.8 million incurred in defending the lawsuit brought by the Crown related to the Pine River spill in 2000. Pembina anticipates that this issue will be resolved by the end of 2004, however circumstances may cause the lawsuit to extend into future periods.

Pembina anticipates that volumes available for transportation in BC will be slightly higher in 2004. A new connection made in late 2003 will contribute a full year of results in 2004 and two additional new connections have been requested by area producers and are scheduled for construction in 2004.

Collectively, these three new connections are expected by Pembina to add an incremental 2,700 barrels per day of throughput. The BC gathering pipelines are regulated provincially, and therefore revenue is based on a return on investment and recovery of operating costs for this system and is not throughput sensitive. Recent and planned investment in gathering and Taylor tank facilities are expected to increase the revenue generated by the BC gathering pipelines in 2004.

Volume on the Western system is transported at a fixed tariff under a tolling arrangement that expires in 2007. As such, revenue generated by Western will be dependent on the marketing decisions of system shippers who may elect to move product west on Western or east on the Alberta Pipelines. The cost of electric power is unhedged on the BC pipelines. Therefore operating expense variability will be largely dependent on the power required to transport nominated volumes going west.

AOSPL

Returns generated by the AOSPL system are contract based and are not throughput sensitive. Revenue was \$44.5 million compared with \$36.9 million in 2002. The 20.6 percent increase reflects incremental returns on project capital associated with the AOSPL capacity expansion. Expenditures are included in the rate base as incurred, as provided for in the transportation agreement. Throughput volume on AOSPL averaged 217,600 barrels per day in 2003 compared with 235,000 barrels per day in 2002. Lower average volume in 2003 resulted from reduced production due to extensive scheduled and unplanned maintenance at the Syncrude facility during the first and fourth quarters of the year. System operating expenses were \$17.1 million in 2003 compared with \$15.1 million in 2002. Higher power costs and a \$1 million girth weld coating program in 2003 caused expenses to increase. Pembina does not anticipate further expense in 2004 related to the girth weld coating program.

The expansion of AOSPL system capacity, undertaken to meet Syncrude's Stage III transportation requirements, is progressing on schedule. By the end of 2003, \$137.5 million of the total \$180 million in project capital has been spent. Design capacity of this system will be increased by just over 40 percent, to 389,000 barrels per day, by the end of the first quarter of 2004. This is ahead of the requested in-service date of mid-2004 and below the Syncrude approved budget of \$208 million. Although Pembina's returns are independent of volume, this increase in capacity benefits Pembina by increasing the AOSPL capital base.

In 2004, AOSPL revenues are expected to increase by 25 percent as a result of the full year inclusion of additional investment in the rate base and further incremental expenditures during the year that will be incorporated into the rate base.

Ethylene Storage

In June 2003, Pembina acquired a 50 percent non-operated interest in the Fort Saskatchewan Ethylene Storage Limited Partnership. Returns on this asset, which is contracted with the two principal customers of the facility, are generated on a contracted cost of service basis, with provision for full operating cost recovery plus a return on invested capital. Pembina's interest in this asset generated \$11.2 million in revenue for the period from June 24, 2003 to December 31, 2003. Pembina's 50 percent share of operating expense totalled \$2.3 million over the same period. In 2004, the full year results are expected to increase proportionately given the stable and consistent nature of the revenue stream.

EXPENSES

General and Administration

General and administration expense totalled \$11.8 million in 2003 compared with \$10.9 million in the prior year. The \$0.9 million increase relates to costs associated with administering a larger asset base, as Pembina continued to grow its business in 2003. During the year, Pembina negotiated a new ten-year lease on the Calgary office space, and higher market rates and an increased floor space requirement resulted in higher total rental cost. Higher staff levels resulted in an increase in salaries and benefits, along with 2003 salary increases that were in line with industry standard. As a percentage of operating income, general and administration expense is consistent with the prior year at 8.0 percent.

Management Fees

The Fund is administered, and its subsidiaries are managed, by Pembina Management Inc. Compensation to the manager is based on a percentage of distributable cash and other fees that are detailed in Note 1 to the consolidated financial statements. In 2003 the manager was paid a fee of \$1.0 million, similar to the prior year. Acquisition fees of \$1.2 million paid to the manager related to the purchase of the 50 percent interest in the Fort Saskatchewan Ethylene Storage Limited Partnership. No acquisition fees were paid in the prior year.

Depreciation and Amortization

Depreciation and amortization expense of \$76.3 million in 2003 increased from \$68.0 million in the prior year. Part of the increase relates to depreciation of the storage facility assets which are amortized over the



20-year life of the storage contract with the two primary customers. Depreciation was also taken on the \$123.2 million in AOSPL system capital additions in 2003 that were not present in 2002. AOSPL assets are depreciated as specified by the long-term transportation agreement under which the system is administered. The rate of depreciation for these assets is tied to the remaining life of the agreement, which currently expires at the end of 2035. Other pipeline assets and facilities are depreciated on a straight line or declining balance basis at rates ranging from three percent to ten percent per annum. These rates have been established to depreciate original costs over the economic or contractual duration of the related assets.

Interest Expense and Financial Instruments

Interest expense of \$20.3 million compares with \$15.8 million in the prior year. The increase reflects the higher average debt resulting from AOSPL expansion capital expenditures, the storage facility acquisition and an increase in the average cost of borrowing. In mid-2002, \$100.0 million of 7.38 percent senior notes were issued in a private placement for a term of 15 years, to replace bank debt and align a portion of the debt with the long-life nature of the pipeline assets. Outstanding senior debt at the end of 2003 totalled \$416.1 million.

The debt was comprised of the \$100.0 million in senior notes, \$135.0 million in fixed rate swaps at an average rate of 6 percent for terms of one to four years, and the balance of \$181.1 million borrowings under Pembina's bank credit facilities at floating rates which averaged 4.2 percent during the year. Pembina's floating rate debt represented 43.5 percent of total senior debt at year-end. A 0.25 percent change in short-term rates on the floating component of bank debt at December 31 would have an annualized impact of \$0.5 million on Pembina's cash from operations. The mark-to-market value of the interest rate swaps at December 31, 2003 was an unrealized loss of \$3.2 million.

Pembina anticipates the issuance of an additional \$175.0 million in senior notes by way of a private placement during 2004. To reduce the risk associated with an increase in long-term interest rates until the notes are issued, the base Government of Canada 10 year bond rate has been hedged on \$175.0 million at a rate of 4.74 percent to April 30, 2004.



Debenture Interest

Interest on convertible debentures of \$13.8 million in 2003 compares with \$7.3 million in the prior year. The increase is attributable to a \$220.0 million debenture issue mid-year, offset by lower outstanding balances on the two existing debenture issues. \$8.6 million of the 2003 debenture interest relates to the \$220.0 million of 7.35 percent debentures issued in June 2003. At December 31, 2003, the remaining principal amount outstanding on the convertible debentures was: \$218.8 million at 7.35 percent, convertible at \$12.50 per Unit; \$43.0 million at 7.5 percent, convertible at \$10.50 per Unit; and, \$14.0 million at 8.50 percent, convertible at \$9.00 per Unit. Should the trading price of the Trust Units hold above the conversion price of one or more series of the convertible debentures, Pembina anticipates further conversion to equity in 2004.

Income Taxes

The Fund is a unit trust for income tax purposes and as such the Fund is only taxable on any income that it has not distributed to Unitholders. As the Fund is required, pursuant to its Declaration of Trust, to distribute all of its income to Unitholders, there is no tax payable by the Fund. Subsidiaries of the Fund are taxable. Any income tax or future income tax liabilities reported in the financial statements of the Fund are those of the subsidiaries.

Future income tax liabilities of subsidiaries amounting to \$200.6 million at December 31, 2003 represent the differences between the book value and tax value of capital assets at future statutory income tax rates. These differences were required to be recognized at the time of the initial acquisition of assets in 1997 and on subsequent acquisitions. On recognition, an equivalent amount has been allocated to goodwill as the estimated depreciated replacement cost of the acquired assets approximated the value of the assets. The future income tax reduction of \$28.5 million for 2003 represents the annual change in the book value and tax value of assets at future statutory rates.

Pension Liability

The Fund's subsidiary maintains a non-contributory defined pension plan covering 309 employees and 104 retirees. At the end of 2003, the plan was in a deficit of \$11.4 million. Plan obligations of \$50.1 million compared with a market value of plan assets of \$38.7 million at December 31st. During 2003, \$3.2 million in pension expense was recorded and \$4.7 million was contributed to the plan. This compares to an expense of \$2.2 million in the prior year. No pension funding was permitted in the prior year due to regulatory restrictions.

The accrued pension liabilities of \$2.0 million represent amounts expensed in the statement of earnings but not contributed to the plan. In 2004, contributions of \$4.0 million and a similar amount of pension expense are anticipated. Assumptions under the plan include management's expectation of a long-term return on plan assets of 7.0 percent per year and an annual increase in compensation of 4.0 percent, which are in line with industry standards.

NET EARNINGS

Years ended December 31, 2003 and 2002

(in millions of dollars, except per Trust Unit amounts)

	2003	cents/bbl ¹	2002	cents/bbl
Revenue	\$ 243.1	93.0	\$ 224.5	82.4
Less Operating Expense	96.2	36.9	89.0	32.6
Net Operating Income	146.9	56.1	135.5	49.8
Deduct/(add):				
General and administrative	12.8	4.9	11.9	4.2
Other	0.5	0.2	0.8	0.3
Interest	20.3	7.8	15.8	5.8
Depreciation and amortization	76.3	29.2	68.0	25.0
Future income tax reduction	(28.5)	(10.9)	(21.7)	(8.0)
Capital taxes	2.1	0.8	1.2	0.5
Net Earnings	\$ 63.4	24.1	\$ 59.5	22.0
Earnings per Trust Unit ²				
Basic	\$ 0.52		\$ 0.57	
Diluted	\$ 0.52		\$ 0.57	

¹ Including storage results

² Based on the weighted average number of Trust Units outstanding during the year

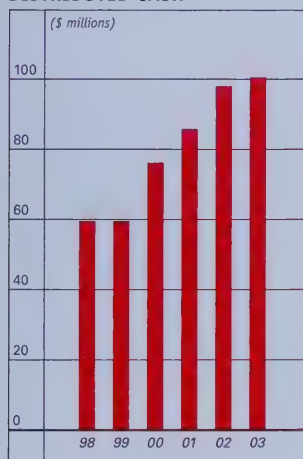
Net earnings of \$63.4 million in 2003 were \$3.9 million higher than the previous year. This is the result of \$11.4 million of increased operating income, primarily from AOSPL operations and the acquisition of the storage facility interest. This was offset by increases in the interest and depreciation expense related to the AOSPL expansion and storage acquisition. A large reduction in future taxes of \$6.8 million, most of which resulted from the additional \$65 million in future taxes attributable to the ethylene storage facility acquisition, also contributed to net earnings.

The Fund's accounting for goodwill changed effective January 1, 2002 in compliance with the new accounting standard, Section 3062 of the CICA Handbook, dealing with goodwill and other intangible assets. The new standard requires that goodwill not be amortized but tested for impairment on an annual basis. A goodwill impairment loss would be recognized when the carrying amount of goodwill exceeds its fair value. An impairment is determined by comparing the fair value of assets with the carrying value of property, plant and equipment and goodwill, less future taxes. As the fair value, based on estimated discounted future cash flows from operations, exceeded the carrying value for 2003 no impairment was required to be recognized. At December 31, 2003, the Fund had unamortized goodwill and other intangible assets in the amount of \$287.7 million.

DISTRIBUTED CASH

Distributed cash rose 5 percent in 2003 to \$101.0 million from \$96.3 million in the previous year. The issuance of the \$220 million of convertible debentures in June 2003 caused debenture interest to increase significantly from the prior year. No debt repayment was deducted from distributed cash in 2003 as proceeds from the Premium Distribution, Distribution Reinvestment and Optional Cash Purchase Plan were utilized to partially provide for debt repayments. In 2003, the distribution reserve decreased by \$4.9 million, with a reserve balance of \$0.9 million at December 31, 2003. In 2004, it is Pembina's intention to build the distribution reserve to a minimum of \$5 million.

DISTRIBUTED CASH



Years ended December 31, 2003 and 2002 (in millions of dollars, except per Trust Unit amounts)		
	2003	2002
Net earnings	\$ 63.4	\$ 59.5
Add/(deduct):		
Depreciation and amortization	76.3	68.0
Interest on convertible debentures	(13.8)	(7.3)
Future income tax reduction	(28.5)	(21.7)
Maintenance capital expenditures	(1.3)	(1.2)
Debt repayments		(5.6)
Decrease (increase) in distribution reserve	4.9	4.6
Distributed Cash	\$ 101.0	\$ 96.3
Distributed Cash per Trust Unit	\$ 1.05	\$ 1.05
Diluted Distributed Cash per Trust Unit	\$ 1.02	\$ 1.02

2003 CASH DISTRIBUTIONS TO UNITHOLDERS

(\$ per Trust Unit) Record Date	Payment Date	Income	Other Taxable Amount	Non-Taxable Total
January 31, 2003	February 14, 2003	\$ 0.08089	\$ 0.00661	\$ 0.0875
February 28, 2003	March 14, 2003	0.08089	0.00661	0.0875
March 31, 2003	April 15, 2003	0.08089	0.00661	0.0875
April 30, 2003	May 15, 2003	0.08089	0.00661	0.0875
May 31, 2003	June 13, 2003	0.08089	0.00661	0.0875
June 30, 2003	July 15, 2003	0.08089	0.00661	0.0875
July 31, 2003	August 15, 2003	0.08089	0.00661	0.0875
August 31, 2003	September 15, 2003	0.08089	0.00661	0.0875
September 30, 2003	October 15, 2003	0.08089	0.00661	0.0875
October 31, 2003	November 14, 2003	0.08089	0.00661	0.0875
November 30, 2003	December 15, 2003	0.08089	0.00661	0.0875
December 31, 2003	January 15, 2003	0.08089	0.00661	0.0875
Total 2003 Cash Distributions		\$ 0.97068	\$ 0.07928	\$ 1.0500

The total distribution of \$1.05 per Unit represents income of which \$0.97068 per Unit is taxable "other income" and \$0.07928 per Unit is non-taxable. For most Unitholders, the non-taxable portion is considered a return of capital and will reduce the cost base of each Unit.

For Unitholders participating in the regular distribution reinvestment plan, it is the Canada Revenue Agency's (CRA's) administrative position that the 5 percent discount at which additional units are acquired is income in the hands of the Unitholder. The Unitholder is permitted to add the amount of the income inclusion to the cost of the Trust Units acquired. This allows the income inclusion to be reflected in calculating the capital gain or capital loss in respect of a subsequent disposition of Trust Units by the Unitholder.

With respect to the premium distribution plan, the Fund believes that it is likely that the CRA will take the position that the 2 percent premium earned under the premium distribution component of the plan is taxed as income.



LIQUIDITY AND CAPITAL RESOURCES

(\$ millions)	2003	2002
Cash	\$ 37.0	\$ 34.6
Working capital	7.3	2.0
Bank debt	316.1	222.7
Senior secured notes	100.0	100.0
Convertible debentures	264.7	73.9
Available bank debt capacity ¹	133.8	223.7
Fixed rate debt (average rate of 6.4%)	235.0	200.0
Variable rate debt (average rate of 3.9%)	\$ 181.0	\$ 123.7
Trust Units outstanding at March 12, 2004 (millions)	99,795,385	
Trust Unit options outstanding at March 12, 2004 (millions)	1,300,811	

¹ Reduced by outstanding letter of credit of \$0.1 million

The Fund has established credit facilities of \$550 million of which \$134 million is unutilized. \$69 million is available for general corporate purposes with \$65 million available for the AOSPL expansion. The working capital, excluding long-term debt due within one year, at December 31, 2003 was \$7.3 million which provides sufficient liquidity to manage ongoing operations. As a major portion of the accounts receivable are with customers in the oil and gas industry and under the terms of the Fund's shipping regulations, tolls are payable on the 25th day of the following business month, the risk of non-collection is extremely low. The Fund distributes all of its net cash flow subject to retaining an appropriate distribution reserve, financing maintenance capital, making loan repayments and, if applicable, funding future removal and site restoration reserves.

Pembina's bank credit facilities consist of a \$230 million revolving credit facility, a \$190 million revolving expansion facility and a \$30 million operating line of credit. The \$190 million revolving credit facility is committed for funding the future expansion of the AOSPL system and will be drawn in stages to maturity at December 31, 2004. Aggregate debt of \$416.1 million at December 31, 2003 resulted in a ratio of senior debt to total enterprise value of 20.6 percent. This compares to 22.8 percent at the end of 2002, with the reduction in 2003 due to the impact of the convertible debenture financing completed in June 2003.

In June 2003, the Fund issued \$220 million principal amount of 7.35 percent Convertible Unsecured Subordinated Debentures. The debentures have a conversion price of \$12.50 per Trust Unit and mature December 31, 2010. Net proceeds from the offering were used in part to finance the ethylene storage acquisition and to repay bank debt.

Pembina Pipeline Income Fund obtained a STA-2 (low) stability rating from Dominion Bond Rating Service Limited (DBRS) in May 2003. DBRS reconfirmed its rating in June 2003 following the above noted convertible debenture offering. The rating recognizes Pembina's stable asset profile and financial results. Standard & Poor's (S&P) confirmed its "BBB" long-term corporate credit rating on Pembina Pipeline Corporation and "BBB plus" senior debt rating in June 2003, but revised its outlook to negative from stable. S&P categorize convertible debentures as debt for ratings purposes.

Development capital totaled \$138.5 million in 2003, of which \$123.2 million related to the AOSPL expansion project. \$5.4 million was spent on new connections and an upgrade on Pembina's Alberta pipeline systems and \$9.0 million was expended for a new connection, upgrades and repair costs on the BC pipeline systems. Maintenance capital spending in 2003 was \$1.3 million, consistent with the prior year.

Contractual Obligations

(\$ millions)	Payments Due By Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-Term Debt ¹	\$ 225.0	\$ 125.0	\$ 7.3	\$ 12.4	\$ 80.3
Office and Vehicle Leases	16.6	2.7	4.5	3.3	6.1
AOSPL Expansion	16.8	16.8			
Total Contractual Obligations	\$ 258.4	\$ 144.5	\$ 11.8	\$ 15.7	\$ 86.4

¹ It is Pembina's intent to issue senior unsecured notes during 2004 to refinance the long-term debt due within one year.

CRITICAL ACCOUNTING ESTIMATES

Readers are referred to Note 2 to the Fund's audited consolidated financial statements as at and for the year ended December 31, 2003 for a description of the Fund's significant accounting policies. Set forth below are certain items for which critical estimates must be made in preparing those statements.

Depreciation

Pipeline assets and facilities are generally depreciated using the declining balance method at rates ranging from three percent to ten percent per annum. AOSPL and storage assets and facilities are depreciated using the straight line method at rates ranging from three percent to five percent. These rates are established to depreciate original costs over the economic lives or contractual duration of the related assets. Estimates of the economic life of various pipeline systems have been based on projecting future throughputs using historical decline rates and throughputs. Management has assumed that these historical trends will continue and that the increased tolls required to offset these decline rates will also remain competitive. However, the actual useful life of the assets may differ from management's original estimate due to higher decline rates, non-competitive tolls and customer requirements. A resultant change in depreciation expense would have a corresponding effect on the net earnings of the Fund.

Future Removal and Site Restoration Provision

A provision for future removal and site restoration obligations of the Fund's subsidiaries has not been made. The future costs of abandonment will be a function of several factors, including regulatory requirements at the time of abandonment and the pipeline's size and location. Abandonment requirements will vary, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way. It is expected that portions of the pipeline assets will be abandoned over time, and the costs of smaller abandonments and restoration, not expected to be material in any one year, will be charged to operating expense as incurred. At such time as the cost of abandoning substantial portions of the pipeline assets can reasonably be determined, the fair value of these estimated costs will be recorded as a liability over the remaining life of the pipeline assets. It is expected that these costs will be recovered through future tolls, and as such, are not expected to have a material effect on the Fund's consolidated financial position.

Goodwill

Goodwill represents the estimated tax costs related to the difference between the fair value and the tax base of acquired assets. Goodwill is not amortized but is subject to an annual impairment test and an impairment loss is recognized when the carrying amount of goodwill exceeds its fair value. The measurement methodology used to evaluate whether there is a permanent impairment in the value of the unamortized portion of goodwill is based on discounted cash flows. Management's estimate of the fair value involves a projection of the future cash flows generated by the assets using the Fund's weighted average cost of capital as the discount rate. The results obtained may differ if different assumptions were used in these calculations.

RECENT ACCOUNTING PRONOUNCEMENTS

In 2003, the CICA issued Section 3063, Impairment of Long-Lived Assets, which is effective for years beginning on or after April 1, 2003. The standard establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The Fund does not anticipate any material impact on its financial statements as a result of the adoption of this standard in future financial periods.

In 2003 the CICA issued Section 3110, Asset Retirement Obligations, which is effective for years beginning on or after January 1, 2004. This section establishes standards for the recognition, measurement and disclosure of liabilities for asset retirement obligations and the associated asset retirement cost. The standard relates to the legal obligation of the Fund to remove assets and the associated clean up at the end of their useful lives. Adoption of this standard will result in an increase in property, plant and equipment and future site restoration in the Fund's balance sheet, but is not expected to have a material impact on earnings or cash from operations.

In 2001, the CICA issued Accounting Guideline 13, Hedging Relationships, which is effective for years beginning on or after July 1, 2003. The Guideline establishes principles for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. The Fund does not anticipate any material impact on its financial statements as a result of the adoption of this standard for future financial periods.

Additional information concerning the Fund's significant accounting policies is contained in Note 2 to the audited consolidated financial statements as at and for the year ended December 31, 2003.



TRUST UNIT INFORMATION

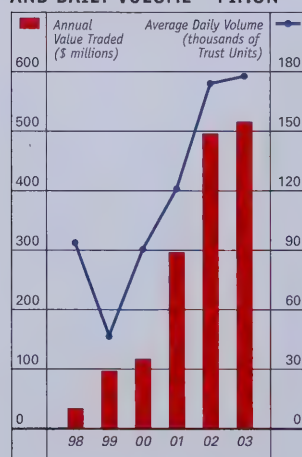
	2003	2002
Trading Volume and Value (in Trust Units, except where noted)		
Total Volume	44,737,608	42,984,251
Average Daily Volume	175,440	168,566
Value Traded (\$ thousands)	\$ 537,348	\$ 485,037
Trust Units Outstanding at Year-End	98,766,465	93,583,360
Year-end Unit Trading Price (\$/Unit)	\$ 13.10	\$ 10.90
Market Value (\$ thousands at December 31)		
Trust Units	\$ 1,293,835	\$ 1,020,059
8.25% Convertible Debentures ¹	19,802	23,111
7.50% Convertible Debentures ²	51,646	59,707
7.35% Convertible Debentures ³	233,915	
Market Capitalization (\$ thousands)	1,599,198	1,102,877
Senior Debt (\$ thousands)	416,111	326,529
Total Enterprise Value (\$ thousands)	\$ 2,015,309	\$ 1,429,406

¹ \$14.0 million principal amount of 8.25% convertible debentures outstanding at a market price of \$141.00

² \$43.1 million principal amount of 7.50% convertible debentures outstanding at a market price of \$120.00

³ \$218.8 million principal amount of 7.35% convertible debentures outstanding at a market price of \$106.89

ANNUAL VALUE TRADED AND DAILY VOLUME – PIF.UN



The Fund's Trust Units, together with each of the three series of convertible debentures, are traded on the Toronto Stock Exchange. The total value of outstanding securities of the Fund at December 31, 2003 of \$1.6 billion was \$0.5 billion higher than the prior year. Pembina's Trust Unit public float increased by 5.6 percent in 2003 and was due primarily to trust unit issuances upon debenture conversions. The trust unit trading price reached a high of \$13.28 per unit late in the fourth quarter before falling back slightly to close 2003 at \$13.10 per unit. Pembina's total enterprise value of \$2.015 billion, at December 31, 2003 was significantly higher than at year-end 2002 due to the \$220 million convertible debenture issue and increased market value of the Trust Units. Senior debt to total enterprise value of 20.6 percent at December 31, 2003 was less than the previous year.

Pembina's Premium Distribution, Distribution Reinvestment and Optional Cash Purchase Plan, launched in January 2003, has received strong Unitholder support throughout 2003. Total Trust Units issued under the Plan in 2003 totaled 2.5 million. Proceeds generated by the incremental issuance of low-cost equity under the Plan totaled \$30 million at December 31, 2003 and were directed to debt repayment and to fund the capital program.

OUTLOOK AND RISKS

Pembina owns and operates the largest liquids feeder pipeline system in Canada. Its pipelines service the considerable reserves of conventional crude oil and natural gas in central and western Alberta and northeast British Columbia. Pembina's AOSPL pipeline is currently the sole shipper of synthetic crude oil produced from the extensive oil sands operations of Syncrude Canada located in northeast Alberta.

In mid-2003, Pembina acquired a fifty percent ownership in the Fort Saskatchewan Ethylene Storage Facility that stores ethylene for Nova Chemicals and Dow Chemicals under a 20-year storage agreement.

The wide ranging geographic scope of Pembina's pipeline network and the diverse product stream transported on the pipelines combine to reduce Pembina's exposure to specific producing regions or products, and disseminates reserve and operating risk over a wide array of pipeline, and now storage, assets.

With its extensive base of pipeline and related assets, Pembina is exposed to the risk of spills and environmental incidents. Pembina has implemented a number of programs to manage this risk. Pembina's information services department is proceeding with a number of initiatives to enhance the ability to promptly detect and limit the magnitude of such incidents. These include a multi-year upgrade and standardization of the Supervisory Control and Data Acquisition (SCADA) systems, expansion of the communications infrastructure, rationalization of the leak detection systems and the establishment of an alternate control center. Pembina is finalizing the first integrity management plan for its Western system and has entered into an agreement with a software company to develop audit protocols for a plan that can be applied to all of Pembina's pipelines. In addition, Pembina continues to expend significant sums on pipeline testing and repairs where required. In the event of a spill or environmental incident, Pembina does maintain adequate insurance to cover the cost of dealing with such events.

The AOSPL system has recently undergone significant expansion at the request of the Syncrude owners to facilitate transportation of incremental production associated with their expansion. The return generating capital base of the AOSPL system will effectively double by the end of 2004 as a result. AOSPL is strategically located to provide service to other oil sands projects currently proposed or under development in the Fort McMurray area. Pembina is in discussions with the owners of several projects that will require transportation services in the next three to five years.

Pembina is encouraged by the recent drilling of new wells by oil and natural gas producers in areas served by Pembina's existing pipelines. The continued strength in the price of crude oil and natural gas bodes well for the future use of its pipelines. New activity in Pembina's service regions helps to offset natural declines in production from reserves of conventional oil and natural gas in the western Canadian sedimentary basin. Ongoing oil and gas development activity, together with proactive asset and toll management, assists Pembina in maintaining the margins generated by its pipeline operations. Pembina will continue to evaluate further opportunities to expand and diversify our base of pipeline and other energy infrastructure assets, to enhance the stability of future Unitholder returns.

Risk Factors

Following is a summary of the primary risk factors identified by Management that could potentially have a material impact on the financial results and operations of the Fund. For a full discussion of these risk factors, readers are referred to the Fund's Annual Information Form.

Distributions

The Fund has announced a 2004 target distribution objective of \$1.05 per Trust Unit, consistent with the distribution rate established over the past three years. However, there can be no assurance that this level of distributions will be achieved. The actual amount of distributions paid to Unitholders will depend upon numerous factors including operating cash flow, general and administrative costs, debt repayment and service costs, taxes, capital expenditures, reclamation reserves, if any, and working capital requirements. Payments by Pembina, the principal operating subsidiary, to the Fund may be delayed or reduced by restrictions imposed by lenders, disruptions in service, or the ability of Pembina to delay interest payments on its senior secured notes for up to twelve months in certain circumstances.

Debt Service

At the end of 2003 Pembina had exposure to floating interest rates on \$181 million of bank debt. A 0.25 percent change in the short-term rates would have an annualized impact of \$0.5 million on net cash flow. Variations in interest rates and scheduled principal repayments, if required under the terms of the banking agreements as described in Note 6 to the financial statements, could result in significant changes in the amount required to be applied to debt service before payment of any amounts by the operating subsidiaries to the Fund. Certain covenants in the agreements with the lenders may also limit payments by the operating subsidiaries to the Fund. Although it is believed that the existing credit facilities are sufficient, there can be no assurance that the amount will be adequate for the financial obligations of Pembina or that additional funds can be obtained. Lenders, including the holders of the Pembina senior notes, have been provided with security over substantially all of the assets of Pembina. The current expansion of AOSPL is being financed by a \$190 million expansion facility that matures December 31, 2004. Pembina intends to refinance this facility during 2004 with the issuance of \$175 million in senior unsecured notes, but there is no assurance such financing will occur on terms favourable to the Fund. If Pembina becomes unable to pay its debt service charges or otherwise commits an event of default, such as bankruptcy, the lenders will rank senior to the Fund in respect of payments made by the operating subsidiaries on securities or unsecured promissory notes which are held by the Fund. As a result, cash distributions from the Fund to Unitholders would be adversely affected by such circumstances.

Capital Resources

Future acquisitions, expansions of the pipeline assets and other capital expenditures will be financed from sources such as cash generated from operations, issuances of additional Trust Units or other securities of the Fund or Pembina and borrowings. There can be no assurance that sufficient capital will be available on terms acceptable to the Fund to fund expansions or other required capital expenditures. To the extent that external sources of capital become limited or unavailable, Pembina's ability to make the necessary or desirable capital expenditures will be impaired. To the extent Pembina is required to use cash flow to finance capital expenditures, the level of cash distributed to Unitholders will be reduced.

Reserves Replacement and Throughput

Future throughput on the pipelines and replacement of oil and gas reserves in Pembina's service areas will be dependent upon the success of producers operating in those areas in exploiting their existing reserve bases and exploring for and developing additional reserves. Without reserve additions, or expansion of the service areas, throughput on the pipelines will decline over time as reserves are depleted. In addition, as reserves are depleted or if product prices for crude oil, condensate and NGLs decline, production costs may increase relative to the remaining value of the reserves in place, producers may shut-in production, seek out lower cost alternatives for transportation, or pressure the pipeline operators to reduce tariffs. Over the long term, the business of the Fund will depend, in part, on the level of demand for crude oil and NGLs in the markets served by the pipelines. The Fund cannot predict the impact of future economic conditions and competition on the energy and petrochemical industries which in turn would affect the demand for crude oil, condensate and NGLs. Tariff revenues are based upon a variety of tolling arrangements, including "deliver or pay" contracts, cost of service arrangements and market based tolls, and therefore some tariff revenues are not necessarily dependent upon throughput.

Environmental Costs and Liabilities

The operation of the pipeline assets is subject to Canadian federal and Alberta and British Columbia provincial laws and regulations relating to environmental protection and operational safety. Although Pembina believes that the current operation of its pipeline systems is in compliance with all applicable environmental and safety regulations, risks of substantial costs and liabilities are inherent in pipeline operations, and there can be no assurance that substantial costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly strict environmental and safety laws, regulations and enforcement policies thereunder, and claims for damages to persons or property resulting from Pembina's operations, could result in significant costs and liabilities to Pembina. If Pembina was not able to recover the resulting costs through insurance or increased tariffs, distributions by the Fund to Unitholders and payments to holders of debentures would be adversely affected. While Pembina maintains insurance in respect of damage caused by seepage or pollution in an amount it considers prudent and in accordance with industry standards, certain provisions of such insurance may limit its availability in respect of certain occurrences unless they are discovered within fixed time periods, which typically range from 72 hours to seven days. If Pembina is unaware of a problem or is unable to locate the problem within the relevant time period, insurance coverage may not be available. However, Pembina believes that it has adequate leak detection systems in place to monitor a significant spill of product.



Competition

Pembina competes with other pipelines in its service areas as well as with truckers of crude oil and NGLs. The introduction of competing transportation alternatives into Pembina's service areas could potentially have the impact of limiting Pembina's ability to adjust tolls as it may deem necessary. Pembina believes that it is well prepared to meet these existing and potential competitive pressures.

Regulatory Intervention

Legislation in Alberta and British Columbia exists to ensure that producers have fair and reasonable opportunities to produce, transport, process and market their reserves. Producers and shippers may also apply to the regulatory authorities for a review of tariffs if they prove the tariffs are not just and reasonable. Applications by producers to have a pipeline operator declared a common carrier are usually accompanied with an application to have tariffs set by the regulatory authorities. The extent to which regulatory authorities in such instances can override existing transportation or processing contracts has not been fully decided. The potential for direct regulation of tolls, other than for the BC Pipelines which are provincially regulated, while considered remote, could result in toll levels which are not considered fair and reasonable by Pembina and may impair the economic operation of such regulated pipeline systems.

Pipeline Abandonment Costs

Pembina is responsible for compliance with all applicable laws and regulations regarding the abandonment of its pipeline assets at the end of their economic life, which abandonment costs may be substantial. The proceeds of the disposition of certain assets associated with the pipeline assets would be available to offset abandonment costs. However, it is not possible to predict abandonment costs since they will be a function of regulatory requirements at the time and the value of Pembina's assets may then be more or less than abandonment costs. Pembina may, in the future, determine it prudent or be required by applicable laws or regulations to establish and fund one or more reclamation funds to provide for payment of future abandonment costs. Such reserves could decrease distributable cash to Unitholders and funds available to service obligations under the debentures.

Operational Hazards

Pembina's operations will be subject to the customary hazards of the pipeline transportation business. The operations of Pembina's pipelines could be disrupted by natural disasters or other events beyond the control of Pembina. A casualty occurrence could result in the loss of equipment or life, as well as injury and property damage. Pembina will carry insurance coverage with respect to some, but not all, casualty occurrences in amounts customary for similar business operations which coverage may not be sufficient to compensate for all casualty occurrences.

SELECTED QUARTERLY FINANCIAL INFORMATION

	2003				2002			
(\$ thousands, except where noted)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	\$ 58,216	\$ 57,030	\$ 61,562	\$ 66,266	\$ 56,540	\$ 55,292	\$ 54,719	\$ 57,916
Operating Expense	24,311	23,458	23,065	25,317	19,595	21,023	23,528	25,169
EBITDA	30,851	29,776	35,496	37,534	33,712	31,500	28,315	29,316
Net Earnings	13,536	15,253	16,963	17,638	16,754	18,601	12,190	11,991
Net Earnings per Trust Unit (\$/unit):								
Basic	\$ 0.13	\$ 0.14	\$ 0.12	\$ 0.13	\$ 0.16	\$ 0.18	\$ 0.11	\$ 0.11
Diluted	0.13	0.14	0.12	0.13	0.16	0.18	0.11	0.11
Distributed Cash	\$ 24,666	\$ 25,044	\$ 25,465	\$ 25,833	\$ 23,481	\$ 23,953	\$ 24,316	\$ 24,538
Distributed Cash per Trust Unit (\$/unit):								
Basic	\$ 0.2625	\$ 0.2625	\$ 0.2625	\$ 0.2625	\$ 0.2625	\$ 0.2625	\$ 0.2625	\$ 0.2625
Diluted	0.2568	0.2582	0.2542	0.2541	0.2556	0.2561	0.2579	0.2571
Trust Units Outstanding (thousands):								
Weighted Average (Basic)	93,954	95,420	97,004	98,409	89,448	91,250	92,629	93,478
Weighted Average (Diluted)	101,659	104,366	121,007	121,889	100,412	100,979	101,008	101,284
End of period	94,285	96,095	97,502	98,766	90,058	91,651	93,101	93,583

ADDITIONAL INFORMATION

Additional information relating to Pembina Pipeline Income Fund, including the Fund's annual information form and financial statements, can be found on the Fund's profile on the SEDAR website at www.sedar.com.

The consolidated financial statements of Pembina Pipeline Income Fund (the "Fund") are the responsibility of Pembina Management Inc. (the "Manager"). The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, using the Manager's best estimates and judgments, where appropriate.

The Manager is responsible for the reliability and integrity of the financial statements, the notes to the financial statements, and other financial information contained in this report. In the preparation of these financial statements, estimates are sometimes necessary because a precise determination of certain assets and liabilities is dependent on future events. The Manager believes such estimates have been based on careful judgments and have been properly reflected in the accompanying financial statements.

The Manager maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial information.

The Board of Directors of Pembina Pipeline Corporation (the "Board") is responsible for ensuring that the Manager fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising their responsibilities through the Audit Committee, which is composed of three non-management directors. The Audit Committee meets periodically with the Manager and the auditors to satisfy itself that the Manager's responsibilities are properly discharged, to review the financial statements and to recommend approval of the financial statements to the Board.

KPMG LLP, the independent auditors, have audited the Fund's financial statements in accordance with Canadian generally accepted auditing standards and their report follows. The independent auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.



Robert B. Michaleski
*President and
Chief Executive Officer
Pembina Management Inc.*

March 1, 2004



Peter D. Robertson
*Vice President Finance and
Chief Financial Officer
Pembina Management Inc.*

Auditors' Report to the Unitholders

We have audited the consolidated balance sheets of Pembina Pipeline Income Fund (the "Fund") as at December 31, 2003 and 2002 and the consolidated statements of earnings and cash flows for years then ended. These financial statements are the responsibility of the Fund manager. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

*Chartered Accountants
Calgary, Canada*

March 1, 2004

Consolidated Balance Sheets

December 31, 2003 and 2002

(In thousands of dollars)

	2003	2002
Assets		
Current assets:		
Cash and term deposits	\$ 3,266	\$ 4,259
Accounts receivable	33,718	30,292
	36,984	34,551
Property, plant and equipment (NOTE 4)	1,175,084	996,213
Goodwill and other (NOTE 5)	362,428	224,798
	\$ 1,574,496	\$ 1,255,562

Liabilities and Unitholders' Equity

Current liabilities:

Accounts payable and accrued liabilities	\$ 21,066	\$ 20,944
Distributions payable to Unitholders	8,642	8,189
Current portion of long-term debt (NOTE 6)	134,000	3,300
	163,708	32,433
Long-term debt (NOTE 6)	282,111	322,959
Accrued benefit liability (NOTE 12)	1,951	3,453
Future income taxes (NOTE 11)	200,600	164,100
Unitholders' equity:		
Trust Units (NOTE 7)	896,132	842,014
Convertible debentures (NOTE 8)	264,653	73,873
Earnings to date	233,736	184,118
Distributions to date	(468,395)	(367,388)
	926,126	732,617
Commitments (NOTE 14)		
	\$ 1,574,496	\$ 1,255,562

On behalf of the Board of Directors of

Pembina Pipeline Corporation:



Director



Director

See accompanying notes.

Consolidated Statements of Earnings

Years Ended December 31, 2003 and 2002

(In thousands of dollars, except per Trust Unit amounts)

	2003	2002
Revenue	\$ 243,074	\$ 224,467
Expenses:		
Operations	96,151	88,972
General and administrative	11,762	10,851
Management fee	1,024	976
Other	480	825
Depreciation and amortization	76,322	67,973
	185,739	169,597
Earnings before interest and taxes	57,335	54,870
Interest expense (NOTE 6)	(20,291)	(15,835)
Earnings before taxes	37,044	39,035
Capital taxes	(2,154)	(1,199)
Future income tax reduction (NOTE 11)	28,500	21,700
Net earnings	63,390	59,536
Earnings to date, beginning of year	184,118	131,900
Interest on convertible debentures	(13,772)	(7,318)
Earnings to date, end of year	\$ 233,736	\$ 184,118
Earnings per Trust Unit (NOTE 9)		
Basic	\$ 0.52	\$ 0.57
Diluted	\$ 0.52	\$ 0.57

See accompanying notes.

Consolidated Statements of Cash Flows

Years Ended December 31, 2003 and 2002

(In thousands of dollars)

	2003	2002
Cash provided by (used in):		
Operations:		
Net earnings	\$ 63,390	\$ 59,536
Items not involving cash:		
Depreciation and amortization	76,322	67,973
Future income tax reduction	(28,500)	(21,700)
Employee future benefits expense	3,165	2,266
Other	408	408
Cash flow from operations	114,785	108,483
Changes in non-cash working capital (NOTE 10)	(6,188)	(1,505)
Employee future benefits contributions	(4,700)	
	103,897	106,978
Financing:		
Issue of senior notes, net of issue costs		98,630
Bank borrowings	112,018	21,259
Repayment of bank loan	(22,166)	(110,000)
Issue of convertible debentures	210,602	
Issue of Trust Units (NOTE 7)	34,296	7,629
Distributions to Unitholders – current year	(92,365)	(88,099)
Distributions to Unitholders – prior year	(8,189)	(7,687)
Interest on convertible debentures	(13,934)	(8,207)
	220,262	(86,475)
Investments:		
Acquisition of storage facility (NOTE 3)	(188,436)	
AOSPL expansion	(123,237)	(14,229)
Capital expenditures	(16,558)	(14,234)
Changes in non-cash working capital (NOTE 10)	3,079	7,655
	(325,152)	(20,808)
Change in cash and term deposits	(993)	(305)
Cash and term deposits, beginning of year	4,259	4,564
Cash and term deposits, end of year	\$ 3,266	\$ 4,259

See accompanying notes.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(Tabular amounts stated in thousands of dollars, except Trust Unit amounts)

NOTE 1. STRUCTURE OF THE FUND:

Pembina Pipeline Income Fund (the "Fund") is an open-ended, single purpose trust formed under the laws of the Province of Alberta pursuant to a declaration of trust dated September 4, 1997, as amended. The Fund commenced operations on October 24, 1997 when it acquired all of the shares and unsecured promissory notes of Pembina Pipeline Corporation ("Pembina") which owns or has interests in pipelines and related facilities to deliver crude oil, condensates and natural gas liquids in Alberta and British Columbia.

The Fund makes monthly distributions of its distributable cash to Unitholders of record on the last day of each calendar month. The amount of the distributions per Trust Unit are equal to the pro-rata share of interest income (and in certain circumstances repayment of principal) on the Pembina unsecured promissory notes and dividends (and in certain circumstances repayment of capital) on the Pembina shares less expenses of the Fund and cash redemptions of Trust Units.

Pursuant to the Fund's distribution policy, it will pay interest, principal, dividends and capital subject to retaining an appropriate distribution reserve, satisfying its financing covenants, making loan repayments, and funding future removal and site restoration reserves. Pembina's maintenance capital expenditures are expected to be funded from available cash while ongoing pipeline development, expansions and acquisitions of pipeline assets and related facilities will be funded primarily through borrowings by Pembina or issuance of additional Trust Units by the Fund.

Pembina, together with the other operating subsidiaries of the Fund, is managed by Pembina Management Inc. (the "Manager") pursuant to a management agreement. As compensation for its services, the Manager is entitled to:

- (a) a management fee equal to 0.9675% of distributed cash;
- (b) an acquisition fee of 0.645% of the purchase price of any material pipeline asset or facility acquired or swapped;
- (c) a disposition fee of 0.48375% of the sales price of any material pipeline asset or facility sold; and
- (d) an annual incentive fee calculated as a percentage of distributed cash per Trust Unit as follows: 4.8375% of such distribution equal to or in excess of \$1.05 per Trust Unit annually but less than \$1.09 per Trust Unit annually; 6.45% of such distribution equal to or in excess of \$1.09 per Trust Unit annually but less than \$1.19 per Trust Unit annually; and 7.74% of such distribution equal to or in excess of \$1.19 per Trust Unit annually.

In 2003 the Manager was paid a management fee of \$1.0 million (2002 - \$1.0 million) and acquisition fees of \$1.2 million (2002 - \$nil).

Pursuant to an administration agreement, as compensation for its administrative services to the Fund, the Manager receives an annual fee of \$20,000.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES:

The preparation of these consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgment. In the opinion of the Manager, these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of Canadian generally accepted accounting principles.

Principles of consolidation

These consolidated financial statements include the accounts of the Fund, its wholly owned subsidiary companies and partnerships, and its proportionate share of the accounts of joint ventures.

Cash and term deposits

The Fund's short term investments with maturities of ninety days or less are considered to be cash equivalents and are recorded at cost which approximates market value.

Operating inventories

Operating inventories are stated at the lower of cost and net realizable value.

Property, plant and equipment

Development capital expenditures (upgrades and expansions) and maintenance capital expenditures (major renewals and improvements) are capitalized at cost. Maintenance and repair costs are expensed as incurred. Interest is capitalized during the construction phase of large expansions.

Management reviews property, plant and equipment to determine if circumstances indicate impairment in the carrying value or changes in the estimated useful life of the asset. If impairment has occurred, an impairment charge is recognized as depreciation expense in the amount the carrying value of the asset exceeds its fair value.

Depreciation and amortization

Pipeline assets and facilities are generally depreciated using the straight line or declining balance method at rates ranging from 3% to 10% per annum. AOSPL and storage assets and facilities are depreciated using the straight line method at rates ranging from 3% to 5%. These rates are established to depreciate original costs over the economic lives or contractual duration of the related assets. Other intangibles are amortized using the straight line method over the contractual duration of the related asset.

Future removal and site restoration obligation

A provision for future removal and site restoration obligations of the Fund's subsidiaries has not been made. The future costs of abandonment will be a function of several factors, including regulatory requirements at the time of abandonment and the pipeline's size and location. Abandonment requirements will vary, ranging from emptying the pipeline to removal of the pipeline and reclamation of the right-of-way. It is expected that portions of the pipeline assets will be abandoned over time, and the costs of smaller abandonments and restoration, not expected to be material in any one year, will be charged to operating expense. At such time as the cost of abandoning substantial portions of the pipeline assets can reasonably be determined, estimated costs will be provided over the remaining life of the pipeline assets. It is expected that these costs will be recovered through future tolls, and as such, are not expected to have a material effect on the Fund's consolidated financial position.

Income taxes

Income taxes, based on current legislation, are recorded on the liability method of accounting as the subsidiaries are projected to be taxable in the future. Income tax obligations relating to distributions from the Fund are the obligations of the Unitholders. Accordingly, no provision for income taxes on the earnings of the Fund have been made.

Future income tax liabilities of subsidiaries are recognized on acquisitions and reflect the difference between the book value and tax value of capital assets at future statutory income tax rates. On recognition an equivalent amount is allocated to property, plant and equipment or, if the consideration paid approximates the estimated depreciated replacement cost, then the allocation is to goodwill. The future income tax reduction represents the change in these amounts during the year.

Goodwill

Goodwill represents the estimated tax costs related to the difference between the fair value and the tax base of acquired assets. Goodwill is not amortized but is subject to an annual impairment test and an impairment loss is recognized when the carrying amount of goodwill exceeds its fair value. The measurement methodology used to evaluate whether there is a permanent impairment in the value of the unamortized portion of goodwill is based on discounted cash flows.

Employee pension plan

The Fund's subsidiary maintains a non-contributory defined benefit pension plan covering its employees. The cost of pension benefits earned by employees in the defined benefit plan is charged to earnings as services are rendered using the projected benefit method prorated on service. The cost of the defined benefit plan reflects management's estimate of the rate of return on pension plan assets, salary escalations, mortality and other factors affecting the payments of future benefits. Adjustments arising out of plan amendments, changes in assumptions and experience gains and losses are normally amortized over the expected remaining average service life of the employee group.

Risk management

The Fund uses derivative financial instruments and commodity purchase contracts to manage exposure to interest rates and power costs, respectively. The Fund does not use financial instruments for trading or speculative purposes.

The Fund formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Fund also assesses, both at inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Fund enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The Fund designates these swaps as interest rate hedges. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt.

The Fund also uses fixed price commodity purchase contracts to manage volatility in power prices. The payments are recognized in income as a component of operating costs.

Unit based compensation

Effective January 1, 2003 the Fund adopted the fair value method to account for options or similar instruments granted to employees and directors. This change in accounting policy was adopted prospectively. Under the fair value method the options or similar instruments are measured at fair value at the grant date and the cost is recognized in earnings over the vesting period. As there were no options issued during 2003, there was no impact on net earnings.

NOTE 3. ACQUISITION:

On June 24, 2003, a subsidiary of the Fund acquired a direct and indirect interest in the Fort Saskatchewan Ethylene Storage Partnership ("the Partnership"). The Fund directly acquired a 49.9% interest in the Partnership and a 50% share in the Fort Saskatchewan Ethylene Storage Corporation, the general partner of the Partnership, which holds a 0.2% interest in the Partnership. The Partnership owns an underground ethylene storage facility and related lands and equipment. The acquisition has been accounted for by the purchase method and the results of operations have been proportionately consolidated since the acquisition date.

Net assets acquired:

Property, plant and equipment	\$ 113,436
Other intangibles	75,000
Current assets	2,115
Current liabilities	(515)
Goodwill	65,000
Future income taxes	(65,000)
	\$ 190,036

Consideration:

Cash	\$ 186,624
Transaction costs, including a \$1.2 million acquisition fee paid to the Manager	3,412
	\$ 190,036

A summary of the Fund's interest in the Partnership as at December 31, 2003 and for the period from June 24, 2003 to December 31, 2003 is as follows:

Balance Sheet	December 31
Property, plant and equipment	\$ 110,600
Goodwill and other intangibles	138,125
	248,725
Future income taxes	(62,600)
Net current assets	1,455
Investment in the Partnership	\$ 187,580

Statement of Earnings	June 24 – December 31
Revenue	\$ 11,160
Operating expenses	2,284
Cash flow from operations	8,876
Net earnings	4,165

Other intangibles resulted from a 20 year agreement under which substantially all of the revenue is derived from two customers.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT:

	2003	2002
Pipeline assets and facilities, at cost		
In use	\$ 1,251,756	\$ 1,235,249
Under construction – AOSPL expansion	137,466	14,229
Storage asset, at cost	113,436	
	1,502,658	1,249,478
Less accumulated depreciation	(330,411)	(256,051)
	1,172,247	993,427
Operating inventory	2,837	2,786
	\$ 1,175,084	\$ 996,213

Removal and site restoration costs expensed during 2003 were \$2.8 million (2002 – \$1.0 million).

NOTE 5. GOODWILL AND OTHER:

	2003	2002
Goodwill	\$ 287,670	\$ 222,670
Intangibles	75,000	
Other	3,410	3,409
	366,080	226,079
Less accumulated amortization	(3,652)	(1,281)
	\$ 362,428	\$ 224,798

NOTE 6. LONG-TERM DEBT:

	Available facilities at December 31, 2003	2003	2002
Bank facilities:			
Operating facility	\$ 30,000	\$ 11,111	\$ 6,259
Revolving credit facility	230,000	180,000	205,000
Revolving credit facility	190,000	125,000	15,000
Senior secured notes	100,000	100,000	100,000
	550,000	416,111	326,259
Less current portion		(134,000)	(3,300)
Balance December 31		\$ 282,111	\$ 322,959

The bank facilities are syndicated facilities established with Canadian chartered banks (collectively, the "Facilities"). The \$230 million revolving credit facility and the \$30 million operating facility will revolve until March 31, 2004 when it is expected to be renewed for a further 364 days. If the lenders do not extend the facility, the amounts become repayable over four years with 25% of the principal due in equal quarterly payments over four years with the balance due at the end of the term. The \$190 million revolving credit facility, committed for funding the future expansion of the Alberta Oil Sands Pipeline, matures on December 31, 2004.

Borrowings bear interest at the bank's prime lending rates, bankers' acceptances rates plus stamping fees or U.S. LIBOR rates plus applicable margins. The margins vary depending on specified financial ratios and can range from nil to 1.75%. The Facilities are secured by a floating charge debenture on the assets of the Fund and its subsidiaries, guarantees of the subsidiaries and a pledge of the subsidiaries' shares.

At December 31, 2003 the \$18.9 million available under the operating facility was reduced by outstanding letters of credit aggregating \$0.1 million (2002 - \$3.6 million).

In July 2002 Pembina Pipeline Corporation issued \$100 million senior secured notes due 2017. The notes bear interest at 7.38% per annum, compounded semi-annually and payable monthly in arrears. Blended monthly payments of principal and interest of approximately \$1.0 million are payable on the first day of each month beginning September 2005 through August 2017. The notes and bank facilities rank equally with one another and are subject to the maintenance of certain financial ratios.

During 2003 the Fund paid interest of \$12.6 million (2002 - \$12.4 million) on the bank facilities and \$7.3 million (2002 - \$3.4 million) on the notes.

The Fund has entered into interest rate swaps for an amount aggregating \$135 million whereby the Fund receives a floating rate and pays a fixed rate averaging 5.99%. The swaps mature from time to time up to June 9, 2008. The fair value of the swaps at December 31, 2003 was an unrecognized loss of \$3.2 million (2002 - \$3.3 million).

Scheduled repayments of bank loans, in the event that the bank facilities are not renewed, together with scheduled payments of principal on the notes in the next five years are as follows:

Year	Bank Facilities	Notes	Total
2004	\$ 134,000	\$	\$ 134,000
2005	12,000	1,764	13,764
2006	12,000	5,555	17,555
2007	12,000	5,973	17,973
2008	146,111	6,422	152,533
	\$ 316,111	\$ 19,714	\$ 335,825

NOTE 7. TRUST UNITS:

The Fund is authorized to create and issue an unlimited number of Trust Units.

	Trust Units	Amount
Balance, January 1, 2002	87,855,529	\$ 789,952
Exercise of Unit options	901,370	6,896
Debenture conversions	4,761,519	44,433
Distribution Reinvestment Plan	64,942	733
Balance, December 31, 2002	93,583,360	842,014
Exercise of Unit options	659,368	6,508
Debenture conversions	2,017,584	19,822
Distribution Reinvestment Plan	2,506,153	27,788
Balance, December 31, 2003	98,766,465	\$ 896,132

Trust Units are redeemable at any time at the option of the holder. The redemption price is equal to the lesser of 95% of the average market price of the Trust Units during a 10 day period commencing immediately after the redemption date and the closing market price on the redemption date. The total amount payable by the Fund in respect of redemptions in any calendar month shall not exceed \$250,000. To the extent that a Unitholder is not entitled to receive cash upon the redemption of the Trust Units, the redemption price shall be satisfied by way of the Fund distributing a pro-rata number of Pembina notes, shares or securities of other businesses, if any, acquired from time to time.

A unitholders rights plan was approved by the Unitholders on May 2, 2002 for a further three year period. If a bid to acquire control of the Fund is made, the plan is designed to give the board of directors of Pembina time to consider alternatives to allow Unitholders to receive full and fair value for their Trust Units. In the event that a bid, other than a permitted bid, is made, Unitholders become entitled to exercise rights to acquire Trust Units of the Fund at 50% of market value.

In 2001 the Fund instituted a Distribution Reinvestment Plan ("DRIP") entitling Unitholders to reinvest cash distributions in additional Units. In January 2003 the Fund modified the existing DRIP and adopted a Premium Distribution, Distribution Reinvestment and Optional Trust Unit Purchase Plan. This Plan allows participants an opportunity, under the distribution reinvestment component of the plan, to reinvest distributions into Trust Units at a five percent discount to a weighted average market price or, alternatively, under the premium distribution component of the Plan, to realize two percent more cash on their distributions. Eligible unitholders can also make optional Trust Unit purchases at the weighted average market price.

Trust Unit-based compensation:

The Fund has a Trust Unit Option Plan under which directors, officers and employees are eligible to receive options. The number of Trust Units reserved is limited to 6,242,500 Trust Units, subject to increase with the approval of the Unitholders. The options vest on the date of their grant and expire seven calendar years after their grant.

The following tables summarize information about the Trust Unit options at December 31, 2003 and 2002:

Trust Unit Options	Number of Options	Weighted average Exercise price
Outstanding and exercisable, January 1, 2002	1,475,026	\$ 8.02
Granted	1,532,700	10.56
Exercised	(901,370)	7.89
Outstanding and exercisable, December 31, 2002	2,106,356	9.92
Exercised	(659,368)	9.92
Outstanding and exercisable, December 31, 2003	1,446,988	\$ 9.92

Exercise Price	Number Outstanding at December 31, 2003	Weighted average Remaining life (years)
\$6.75	30,450	2.9
\$7.95	133,238	3.8
\$8.05	30,000	3.6
\$8.35	154,900	2.1
\$9.76	50,100	4.6
\$10.56	1,048,300	5.9
\$6.75 to \$10.56	1,446,988	5.1

The weighted average fair value of the options granted during the year ended December 31, 2002 was \$0.08 per option using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield 10%, expected volatility 14%, risk free interest rate of 5% and an expected life of seven years. Had compensation cost for options granted to employees been calculated based on the fair value method, net earnings would have been reduced by \$0.1 million for the year ended December 31, 2002. There were no options granted during 2003.

NOTE 8. CONVERTIBLE DEBENTURES:

	8.25%	7.50%	7.35%	Total
Balance, January 1, 2002	\$ 34,816	\$ 83,490	\$	\$ 118,306
Conversions	(16,442)	(27,991)		(44,433)
Balance, December 31, 2002	18,374	55,499		73,873
New issue, net of costs			210,602	210,602
Conversions	(4,878)	(13,831)	(1,113)	(19,822)
Balance, December 31, 2003	\$ 13,496	\$ 41,668	\$ 209,489	\$ 264,653

In June 2003, the Fund issued \$220.0 million of 7.35% convertible unsecured subordinated debentures maturing on December 31, 2010, with interest payable semi-annually in arrears on June 30 and December 31 in each year. The proceeds of the issue, net of underwriters fees and costs, were \$210.6 million. The debentures may be converted at the option of the holder at a conversion price of \$12.50 per Trust Unit at any time prior to maturity and may be redeemed by the Fund after June 30, 2006. The Fund may, at its option, after June 30, 2006 elect to redeem the debentures by issuing Trust Units. The Fund can elect to pay interest on the debentures by issuing Trust Units.

The \$41.7 million of 7.5% convertible unsecured subordinated debentures mature on June 30, 2007, with interest payable semi-annually on June 30 and December 31 in each year. The debentures may be converted at the option of the holder at a conversion price of \$10.50 per Trust Unit at any time prior to maturity and may be redeemed by the Fund after June 30, 2005. The Fund may, at its option, after June 30, 2005 elect to redeem the debentures by issuing Trust Units. The Fund can elect to pay interest on the debentures by issuing Trust Units.

The \$13.5 million of 8.25% convertible unsecured subordinated debentures mature on March 31, 2006, with interest payable semi-annually on March 31 and September 30 in each year. The debentures may be converted at the option of the holder at a conversion price of \$9.00 per Trust Unit at any time prior to maturity and may be redeemed by the Fund after April 1, 2004. The Fund may, at its option, after April 1, 2004 elect to redeem the debentures by issuing Trust Units. The Fund can elect to pay interest on the debentures by issuing Trust Units.

NOTE 9. EARNINGS PER TRUST UNIT:

The following table summarizes the computation of net earnings per Trust Unit:

	2003	2002
Numerator:		
Net earnings	\$ 63,390	\$ 59,536
Debt interest	(13,772)	(7,318)
Numerator for basic earnings per Trust Unit	49,618	52,218
Numerator for diluted earnings per Trust Unit	63,390	59,536
Denominator:		
Weighted average denominator for basic Trust Units	96,211	91,700
Dilutive instruments:		
Employee Trust Unit options	190	352
Subordinated debentures converted to Trust Units	15,924	9,473
Denominator for diluted earnings per Trust Unit	112,325	101,525
Basic earnings per Trust Unit	\$ 0.52	\$ 0.57
Diluted earnings per Trust Unit	\$ 0.52	\$ 0.57

Diluted earnings per Trust Unit are reported the same as basic earnings per Trust Unit as the actual calculation is antidilutive.

NOTE 10. CHANGE IN NON-CASH WORKING CAPITAL:

	2003	2002
Accounts receivable	\$ (3,426)	\$ 3,138
Accounts payable and accrued liabilities	155	2,123
Debt interest accrued	162	889
	\$ (3,109)	\$ 6,150
Operations	\$ (6,188)	\$ (1,505)
Investments	\$ 3,079	\$ 7,655

NOTE 11. INCOME TAXES:

The components of the Fund's subsidiaries' future income tax liability are as follows:

	2003	2002
Difference between book values and tax values of:		
Property, plant and equipment	\$ 181,875	\$ 164,878
Intangibles	18,987	
Other	(262)	(778)
	\$ 200,600	\$ 164,100

The provision for income taxes in the financial statements differs from the result which would have been obtained by applying the combined federal and provincial tax rate to the Fund's earnings before taxes. This difference results from the following items:

	2003	2002
Earnings before taxes	\$ 37,044	\$ 39,035
Combined federal and provincial tax rate	34.6%	35.1%
Computed "expected" income tax expense	12,800	13,700
Interest deductions of subsidiaries arising from Intercompany debt	(39,000)	(32,800)
Reduction in provincial income tax rates	(2,300)	(2,600)
Future income tax reduction	\$ (28,500)	\$ (21,700)

NOTE 12. EMPLOYEE FUTURE BENEFITS:

The Fund's subsidiary maintains a non-contributory defined benefit pension plan covering its employees. The plan provides benefits based on projections of employees' compensation levels to the time of retirement.

Information about the defined benefit plan is as follows:

	2003	2002
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	\$ 42,655	\$ 41,021
Current service cost	2,252	2,147
Interest cost	2,980	2,872
Benefits paid	(2,175)	(2,188)
Actuarial (gain) loss	4,380	(1,197)
Accrued benefit obligation, end of year	\$ 50,092	\$ 42,655
Plan assets		
Fair value of plan assets, beginning of year	\$ 31,958	\$ 37,546
Annual return on plan assets	4,209	(3,400)
Employer contributions	4,700	
Benefits paid	(2,175)	(2,188)
Fair value of plan assets, end of year	\$ 38,692	\$ 31,958
Funded status		
Deficit	\$ (11,400)	\$ (10,697)
Unamortized net actuarial loss	12,874	10,955
Unamortized transitional asset	(3,425)	(3,711)
Accrued benefit liability	\$ (1,951)	\$ (3,453)

The significant actuarial assumptions adopted in measuring the accrued benefit obligations are as follows:

	2003	2002
Discount rate	6.2%	6.8%
Expected long-term rate of return on plan assets	7.0%	7.5%
Rate of compensation increase	4.0%	4.5%

The net benefit plan expense is as follows:

	2003	2002
Current service cost	\$ 2,252	\$ 2,147
Interest cost	2,980	2,872
Expected return on plan assets	(2,202)	(2,734)
Amortization of transitional asset	(285)	(285)
Amortization of net actuarial loss	453	189
Net benefit plan expense	\$ 3,198	\$ 2,189

The Fund has a non-pension post employment benefit plan which has an unfunded benefit obligation of \$1.7 million (2002 - \$1.5 million). In 2003 there was a plan expense of \$0.3 million (2002 - \$0.3 million).

NOTE 13. FINANCIAL INSTRUMENTS:

Fair value of financial assets and liabilities

The carrying value of financial assets and liabilities included in current assets and current liabilities approximate their fair value due to the relatively short periods to maturity. The bank facilities approximate their fair value due to the indexed rates, except for the \$135 million hedged by the interest rate swaps (see Note 6).

The fair value of Pembina's senior secured notes approximates their carrying value as the rates on the notes do not vary significantly from market rates.

Interest rate and power cost risk management

At December 31, 2003 the Fund was exposed to changes in interest rates on \$181 million of bank borrowings. The Fund has fixed the interest rate on the remaining \$135 million of bank borrowings through interest rate swaps (see Note 6). The Fund is exposed to changes in the cost of power. At December 31, 2003 the Fund has fixed the price on power charges by way of price swap contracts which expire in 2005 and 2006. The fair value of these contracts at December 31, 2003 was an unrealized gain of \$1.2 million.

Credit risk

A major portion of the accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The Fund has historically collected its accounts receivable in full. The Fund has the ability to exercise lien rights on oil and natural gas liquids which are in custody of the Fund during the transportation of such product on the pipelines.

NOTE 14. COMMITMENTS:

The Fund is committed to annual payments as follows:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Office and Vehicles Leases	16,641	2,698	4,580	3,278	6,085
AOSPL Expansion	16,754	16,754			
Total Contractual Obligations	33,395	19,452	4,580	3,278	6,085

In conjunction with the acquisition of AOSPL, the Fund committed to capital expenditures of \$180.0 million to expand the system. To December 31, 2003, \$137.5 million has been spent and \$42.5 million is expected to be spent in 2004. The expenditures will be funded through existing bank facilities.

Supplementary Information (unaudited)

QUARTERLY FINANCIAL STATISTICS

	2003					
	1st	2nd	3rd	4th	Year Ended	Year Ended
(\$ thousands, except per Trust Unit amounts)	Quarter	Quarter	Quarter	Quarter	Dec.31/03	Dec. 31/02
Operating revenue	58,216	57,030	61,562	66,266	243,074	224,467
Operating expense	24,311	23,458	23,065	25,317	96,151	88,972
General and administrative	2,702	3,439	2,647	2,974	11,762	10,851
Management fee	237	244	246	297	1,024	976
Other	115	113	108	144	480	825
Depreciation and amortization	17,683	17,796	20,172	20,671	76,322	67,973
Earnings before interest and taxes	13,168	11,980	15,324	16,863	57,335	54,870
Interest	4,682	4,977	5,131	5,501	20,291	15,835
Capital and other taxes	250	250	630	1,024	2,154	1,199
Future income tax reduction	(5,300)	(8,500)	(7,400)	(7,300)	(28,500)	(21,700)
Net earnings	13,536	15,253	16,963	17,638	63,390	59,536
Add/(Deduct):						
Depreciation and amortization	17,683	17,796	20,172	20,671	76,322	67,973
Interest on convertible debentures	(1,444)	(1,900)	(5,294)	(5,134)	(13,772)	(7,318)
Future income tax reduction	(5,300)	(8,500)	(7,400)	(7,300)	(28,500)	(21,700)
Maintenance capital expenditures	(73)	(256)	(315)	(626)	(1,270)	(1,221)
Debt repayments						(5,625)
Changes in distribution reserve	264	2,651	1,339	584	4,838	4,643
Distributed cash¹	\$ 24,666	\$ 25,044	\$ 25,465	\$ 25,833	\$ 101,008	\$ 96,288
Trust Units Outstanding (weighted average in thousands)	93,954	95,420	97,004	98,409	96,211	91,700
Distributable Cash per Trust Unit	\$ 0.2625	\$ 0.2625	\$ 0.2625	\$ 0.2625	\$ 1.0500	\$ 1.0500
— taxable "Income from a Trust"	\$ 0.2426	\$ 0.2427	\$ 0.2427	\$ 0.2427	\$ 0.9707	\$ 0.8932
— non-taxable "Capital Distribution from a Trust"	\$ 0.0199	\$ 0.0198	\$ 0.0198	\$ 0.0198	\$ 0.0793	\$ 0.1568

¹ Pembina Pipeline Income Fund distributes cash generated by the pipeline operations of Pembina Pipeline Corporation and other operating subsidiaries.

QUARTERLY OPERATING STATISTICS

	2003				Year Ended Dec. 31/03	Year Ended Dec. 31/02
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		
Pipeline Throughput – By Pipeline System <i>(thousands of barrels per day)</i>						
Alberta	442.1	432.5	427.1	433.3	433.6	471.8
BC	32.5	28.8	24.6	24.3	27.5	17.2
AOSPL	194.6	217.2	248.0	210.3	217.6	235.0
Total Pipeline Throughput	669.2	678.5	699.7	667.9	678.7	724.0
Average Tariff (\$ per barrel)	0.92	0.87	0.83	0.94	0.89	0.97

TRUST UNIT TRADING ACTIVITY¹

	2003				Year Ended Dec. 31/03	Year Ended Dec. 31/02
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter		
Trust Unit Trading Price						
– High	\$ 11.64	\$ 12.00	\$ 12.43	\$ 13.35	\$ 13.35	\$ 12.03
– Low	\$ 10.55	\$ 10.92	\$ 11.76	\$ 12.06	\$ 10.55	\$ 9.75
– Close	\$ 10.75	\$ 11.91	\$ 12.29	\$ 13.10	\$ 13.10	\$ 10.90
Volume Traded <i>(number of Trust Units)</i>	11,558,240	8,863,648	12,635,656	11,680,064	44,737,608	42,984,251
Value Traded <i>(dollars)</i>	127,221,726	101,630,400	152,558,349	145,937,052	527,347,527	485,037,108
Trust Units Outstanding <i>(end of period)</i>	94,284,638	96,094,609	97,502,281	98,766,465	98,766,465	93,583,360
Trust Units Outstanding <i>(weighted average)</i>	93,954,453	95,419,775	97,004,035	98,408,765	96,211,172	91,700,000

HISTORIC UNITHOLDER DISTRIBUTIONS AND TAX TREATMENT²

	1997	1998	1999	2000	2001	2002	2003
Total Annual Distribution Declared (\$ per Trust Unit)	0.140000	0.950000	0.950000	0.960000	1.050000	1.050000	1.050000
Taxable "Other Income"	0.099200	0.618900	0.783000	0.770208	0.900768	0.893160	0.970680
Non-Taxable "Return of Capital"	0.040800	0.331100	0.167000	0.189792	0.149232	0.156840	0.079280
Cost Base – beginning of period	10.000000	9.959200	9.628100	9.461100	9.271308	9.122076	8.965236
Less: Return of Capital	0.040800	0.331100	0.167000	0.189792	0.149232	0.156840	0.079280
Cost Base – end of period	9.959200	9.628100	9.461100	9.271308	9.122076	8.965236	8.886036

¹ Pembina Pipeline Income Fund Trust Units trade on the Toronto Stock Exchange under the symbol PIF.UN.

² Cost base for units held from inception (October 1997)

CONSOLIDATED BALANCE SHEETS

December 31, 2003, 2002, 2001, 2000 and 1999

(In thousands of dollars)

	2003	2002	2001	2000	1999
Assets					
Current assets:					
Cash and term deposits	\$ 3,266	\$ 4,259	\$ 4,564	\$	\$
Accounts receivable	31,781	26,383	24,179	24,413	11,575
Insurance recoveries	1,937	3,909	9,250	18,000	
	36,984	34,551	37,993	42,413	11,575
Property, plant and equipment	1,175,084	996,213	1,036,889	857,496	499,977
Goodwill and other	362,428	224,798	222,670	214,890	155,200
	\$ 1,574,496	\$ 1,255,562	\$ 1,297,552	\$ 1,114,799	\$ 666,752
Liabilities and Unitholders' Equity					
Current liabilities:					
Bank indebtedness	\$	\$	\$	\$ 992	\$ 901
Accounts payable and accrued liabilities	19,380	18,430	15,543	17,538	5,750
Clean up costs accrued	1,686	2,514	3,200	7,593	
Distributions payable to Unitholders	8,642	8,189	7,687	5,937	4,372
Current portion of long-term debt	134,000	3,300	7,800	86,000	
	163,708	32,433	34,230	118,060	11,023
Long-term debt	282,111	322,959	307,200	243,423	5,891
Accrued benefit liability	1,951	3,453	1,264		
Future income taxes	200,600	164,100	185,800	182,200	155,200
Unitholders' equity:					
Trust Units	896,132	842,014	789,952	665,648	578,840
Convertible debentures	264,653	73,873	118,306		
Earnings to date	233,736	184,118	131,900	95,655	43,167
Distributions to date	(468,395)	(367,388)	(271,100)	(190,187)	(127,369)
	926,126	732,617	769,058	571,116	494,638
	\$ 1,574,496	\$ 1,255,562	\$ 1,297,552	\$ 1,114,799	\$ 666,752

CONSOLIDATED STATEMENTS OF EARNINGS

Years Ended December 31, 2003, 2002, 2001, 2000 and 1999

(In thousands of dollars, except per Trust Unit amounts)

	2003	2002	2001	2000	1999
Revenue	\$ 243,074	\$ 224,467	\$ 191,647	\$ 136,190	\$ 101,335
Expenses:					
Operations	96,151	88,972	71,368	52,475	36,576
General and administrative	11,762	10,851	8,983	6,864	6,348
Management fee	1,024	976	851	547	890
Other (income) expense	480	825	(3,667)	(3,548)	(1,424)
Depreciation and amortization	76,322	67,973	61,621	48,243	39,014
	185,739	169,597	139,156	104,581	81,404
Earnings before interest and taxes	57,335	54,870	52,491	31,609	19,931
Interest expense	(20,291)	(15,835)	(15,310)	(11,421)	(325)
Earnings before taxes and goodwill amortization	37,044	39,035	37,181	20,188	19,606
Capital taxes	(2,154)	(1,199)	(1,090)	(390)	(282)
Future income tax reduction	28,500	21,700	24,700	50,000	14,100
Net earnings before goodwill amortization	63,390	59,536	60,791	69,798	33,424
Goodwill amortization			(20,520)	(17,310)	(14,100)
Net earnings	63,390	59,536	40,271	52,488	19,324
Earnings to date, beginning of year	184,118	131,900	95,655	43,167	23,843
Interest on convertible debentures	(13,772)	(7,318)	(4,026)		
Earnings to date, end of year	\$ 233,736	\$ 184,118	\$ 131,900	\$ 95,655	\$ 43,167
Earnings per Trust Unit	\$ 0.52	\$ 0.57	\$ 0.47	\$ 0.80	\$ 0.31
Diluted earnings per Trust Unit	\$ 0.52	\$ 0.57	\$ 0.47	\$ 0.80	\$ 0.31

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31, 2003, 2002, 2001, 2000 and 1999

(In thousands of dollars)

Cash provided by (used in):

Operations:

	2003	2002	2001	2000	1999
Net earnings	\$ 63,390	\$ 59,536	\$ 40,271	\$ 52,488	\$ 19,324
Items not involving cash:					
Depreciation and amortization	76,322	67,973	82,141	65,553	53,114
Future income tax reduction	(28,500)	(21,700)	(24,700)	(50,000)	(13,738)
Employee future benefits expense	3,165	2,266	1,265		
Other	408	408	409	409	
Cash flow from operations	114,785	108,483	99,386	68,450	58,700
Change in non-cash working capital	(6,188)	(1,505)	(6,494)	(14,991)	553
Employee future benefits contributions	(4,700)				
	103,897	106,978	92,892	53,459	59,523

Financing:

Issue of senior notes, net of issue costs		98,630			
Bank borrowings	112,018	21,259	233,000	407,532	5,891
Repayment of bank loan	(22,166)	(110,000)	(247,423)	(84,000)	
Issue of convertible debentures	210,602		142,372		
Issue of Trust Units	34,296	7,629	100,237	86,808	367
Distributions to Unitholders					
— current year	(92,365)	(88,099)	(73,226)	(56,881)	(54,954)
— prior year	(8,189)	(7,687)	(5,937)	(4,372)	(4,370)
Interest on convertible debentures	(13,934)	(8,207)	(2,567)		
	220,262	(86,475)	146,456	349,087	(53,066)

Investments:

Acquisition of storage facility	(188,436)				
AOSPL expansion	(123,237)				
Acquisition of AOSPL		(14,229)	(222,220)		
Acquisition of Federated				(361,515)	
Purchase of NEBC pipelines				(39,194)	
Development capital expenditures	(15,287)	(13,013)	(10,389)	(3,508)	(9,870)
Maintenance capital expenditures	(1,271)	(1,221)	(1,183)	(361)	(161)
Other assets				(2,000)	1,061
Changes in non cash working capital	3,079	7,655		3,941	
	(325,152)	(20,808)	(233,792)	(402,637)	(8,970)
Change in cash and term deposits	(993)	(305)	5,556	(91)	(2,783)
Cash and term deposits (bank indebtedness), beginning of year	4,259	4,564	(992)	(901)	1,882
Cash and term deposits (bank indebtedness), end of year	\$ 3,266	\$ 4,259	\$ 4,564	\$ (992)	\$ (901)

FIVE YEAR OPERATING STATISTICS

Years Ended December 31,
2003, 2002, 2001, 2000 and 1999

	2003	2002	2001	2000	1999
Average Annual Throughput (in thousands of barrels per day)					
Alberta					
Conventional Crude Oil	227.5	257.6	277.6	218.7	185.9
Condensate	52.4	54.0	61.6	57.1	52.3
Natural Gas Liquids	153.7	160.2	161.6	120.5	77.9
Total Alberta Pipeline Systems	433.6	471.8	500.8	396.3	316.1
British Columbia (BC) ¹					
Conventional Crude Oil	27.5	17.2	11.3	4.6	
Alberta Oil Sands Pipeline (AOSPL)					
Synthetic Crude Oil	217.6	235.0			
Total Pembina					
Conventional Crude Oil	255.0	274.8	288.9	223.3	185.9
Synthetic Crude Oil	217.6	235.0			
Condensate	52.4	54.0	61.6	57.1	52.3
Natural Gas Liquids	153.7	160.2	161.6	120.5	77.9
Total Average Throughput	678.7	724.0	512.1	400.9	316.1
Throughput Composition (% of total)					
Conventional Crude Oil	37.6%	38.0%	56.4%	55.7%	58.8%
Synthetic Crude Oil	32.0%	32.5%			
Condensate and Natural Gas Liquids	30.4%	29.6%	43.6%	44.3%	41.2%
Pipeline Revenue (in millions of dollars)					
Alberta	\$ 163.5	\$ 170.0	\$ 175.7	\$ 130.3	\$ 101.3
BC	23.9	17.6	15.9	5.9	
AOSPL	44.5	36.9			
Pipeline Revenue	231.9	224.5	191.6	136.2	101.3
Storage Revenue	11.2				
Total Revenue	\$ 243.1	\$ 224.5	\$ 191.6	\$ 136.2	\$ 101.3
Average Tariff (excluding AOSPL) (dollars per barrel)	\$ 1.03	\$ 0.97	\$ 0.95	\$ 0.93	\$ 0.90

¹ BC volume is Western System throughput only.

HEAD OFFICE

Pembina Pipeline Corporation
Suite 2000, 700 – 9th Avenue S.W.
Calgary, Alberta
T2P 3V4

AUDITORS

KPMG LLP
Chartered Accountants
Calgary, Alberta

TRUSTEE AND REGISTRAR AND TRANSFER AGENT

**Computershare Trust
Company of Canada**
600, 530 – 8th Avenue S.W.
Calgary, Alberta
T2P 3S8

Shareholder Communications
1-888-267-6555

STOCK EXCHANGE

Pembina Pipeline Income Fund
Trust Units are listed on the Toronto
Stock Exchange under the symbol
PIF.UN

8.25% Convertible Debentures
Symbol: PIF.DB

7.50% Convertible Debentures
Symbol: PIF.DB.A

7.35% Convertible Debentures
Symbol: PIF.DB.B

RATINGS

Pembina Pipeline Income Fund
DBRS Stability Rating
STA-2 (low)

Pembina Pipeline Corporation
Standard and Poor's Rating
BBB

INVESTOR INQUIRIES CONTACT

Phone (403) 231-7500
Fax (403) 237-0254
Toll Free 1-888-428-3222
Email investor-relations@pembina.com
Website www.pembina.com

ANNUAL GENERAL MEETING

Unitholders are invited to attend Pembina's annual meeting on April 30, 2004 at 10:00 a.m. The meeting will be held in the Imperial Ballroom, Hyatt Regency Calgary, 700 Centre Street South, Calgary, Alberta.

PREMIUM DISTRIBUTION, DISTRIBUTION REINVESTMENT AND OPTIONAL UNIT PURCHASE PLAN

Pembina offers a Premium Distribution, Distribution Reinvestment and Optional Unit Purchase Plan to eligible Unitholders of Pembina Pipeline Income Fund.

The Plan allows participants an opportunity to:

- Reinvest distributions into Trust Units at a five percent discount to a weighted average market price, under the distribution reinvestment component of the Plan; or,
- Realize two percent more cash on their distributions, under the premium distribution component of the Plan
- Eligible unitholders may also make optional Trust Unit purchases at the weighted average market price.

A brochure, detailing administration of the Plan and eligibility and enrolment information, is available on-line on Pembina's website located at www.pembina.com, or call **1-888-428-3222** to receive a copy by mail.

Unitholders wishing to enroll in the Plan are asked to contact their broker.

ABBREVIATIONS

mbbls/d *thousands of barrels per day*
NGLs *natural gas liquids*
\$/bbl *dollars per barrel*
cents/bbl *cents per barrel*



From left to right: Robert B. Michaleski, Myron F. Kanik, David A. Bissett, Robert F. Taylor, Donald L. Krogseth, David N. Kitchen, Lorne B. Gordon.

OFFICERS

Robert B. Michaleski

*President and
Chief Executive Officer*

Peter D. Robertson

*Vice President, Finance and
Chief Financial Officer*

Fred E. Webb

*Vice President,
Business Development*

D. James Watkinson, Q.C.

*Vice President,
General Counsel and Secretary*

S. Bruce Harris

*Vice President,
Operations*

BOARD OF DIRECTORS

Lorne B. Gordon⁽¹⁾⁽²⁾

*Chairman
Calgary, Alberta
President and
Chief Executive Officer,
Coril Holdings Ltd.*

Robert B. Michaleski

*Calgary, Alberta
President and
Chief Executive Officer,
Pembina Pipeline Corporation*

David A. Bissett⁽¹⁾

*Calgary, Alberta
Independent Businessman*

Myron F. Kanik⁽²⁾⁽³⁾

*Calgary, Alberta
Independent Businessman*

David N. Kitchen⁽¹⁾

*Calgary, Alberta
Independent Businessman*

Donald L. Krogseth⁽³⁾

*Vancouver, British Columbia
Independent Businessman*

Robert F. Taylor⁽²⁾⁽³⁾

*Calgary, Alberta
Independent Businessman*

⁽¹⁾ Audit Committee Members

⁽²⁾ Compensation Committee Members

⁽³⁾ Environment Committee Members



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